LAAP BULLETIN 93

Closure of the 2011/12 Accounts and Related Matters

March 2012

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 is the fifth in a succession of LAAP Bulletins covering the closure of accounts and related matters. In response to frequently asked questions and matters arising at various events held by the Financial Advisory Network (FAN), this bulletin provides further guidance and clarification to complement the 2011-12 Code Guidance Notes. In addition, the Bulletin addresses comments in the various audit bodies' reports in relation to local authority financial reporting for the 2010/11 year and the challenges facing authorities for the forthcoming year 2011/12. Some key issues that have been raised in earlier bulletins such as LAAP 84 still appear to present practitioners with problems. Most of the material in earlier "year end" bulletins remains relevant and is also found in guidance notes.

2. The bulletin focuses on those areas that are expected to be significant for most authorities. Inevitably, there will be issues that are relevant to some authorities that are not covered in this bulletin. 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 areas will be more relevant in some jurisdictions than others and are indicated as such.

2011/12 Code Update

4. Practitioners will be aware that a 2011/12 Code Update has been issued.

5. The 2011/12 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) Update is the first mid-year update to the Code. Like the 2011/12 Code, this Update (the 2011/12 Code Update) applies for accounting periods commencing on or after 1 April 2011.

6. The 2011/12 Code Update must be read in conjunction with the 2011/12 Code published by CIPFA in February 2011. The tracked changes to appropriate extracts of the 2011/12 Code include both new and amended paragraphs to form the 2011/12 Code Update.

The 2011/12 Code Update can be found at:

http://www.cipfa.org.uk/pt/cipfalasaac/download/2011-12_Code_Update.pdf

SECTION A - ADDITIONAL GUIDANCE AND CLARIFICATION IN RESPONSE TO FAQS

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

8. The additional guidance, set out below, aims to clarify any areas of uncertainty in the 2011/12 Code that will affect the 2011/12 accounts. It also aims to resolve any significant ambiguities in the 2011/12 Code Guidance Notes and assist practitioners to successfully produce their 2011/12 financial statements, in accordance with the 2011/12 Code of Practice and the 2011/12 Code Update.

ACCOUNTING FOR SCHOOLS NON-CURRENT ASSETS IN THE 2011/12 ACCOUNTS-POSITION UPDATE [England & Wales]

9. As discussed in LAAP 88-Closure of the 2010/11 Accounts and Related Matters, there is uncertainty regarding the accounting treatment of schools' non-current assets, specifically in relation to foundation, voluntary aided and voluntary controlled schools. This position remains unchanged for the 2011/12 year.

10. As part of its consultation on the 2011/12 Update to the Code of Practice on Local Authority Accounting in the United Kingdom, CIPFA/LASAAC consulted on proposals for the accounting treatment in relation to non-current schools' assets. However, they considered the responses to be inconclusive and agreed to set up a review group to develop guidance that will enable local authorities to account for schools in accordance with accounting standards, and where possible, on a consistent basis.

11. It is likely that the consultation on the 2013/14 Code and 2012/13 Code Update will reflect the conclusions.

12. In the meantime, authorities will need to determine the appropriate treatment for their particular circumstances, based on the requirements of the Code.

13. Authorities may find the commentary provided in LAAP 88 (which is still applicable) useful in determining the appropriate treatment.

14. In addition, practitioners might also wish to refer to the more detailed considerations in the consultation paper (ITC) which was issued as part of CIPFA/LASAAC's consultation on the 2011/12 Code Update and the 2012/13 Code, to assist them in any decisions they wish to take. The consultation can be found at:

    http://www.cipfa.org.uk/pt/download/aug11/Invitation_to_Comment_-_Accounting_for_Non-Current_Schools_Assets.pdf

    and:

    http://www.cipfa.org.uk/pt/download/aug11/Annex_to_the_ITC_for_Non-Current_Schools_Assets.pdf

15. It is likely that Authorities will be required to make judgements when applying their authority's accounting policies in relation to the accounting treatment for schools in the financial statements. Such judgements should therefore be fully explained in accordance with paragraph 3.4.2.78 of the Code.

NOTES TO THE CASH-FLOW STATEMENT PREPARED UNDER THE INDIRECT METHOD (EXAMPLE FINANCIAL STATEMENTS)

16. Some practitioners have commented that the disclosures in the Example Financial Statements in the 2011/12 Code Guidance Notes, in relation to the Cash Flow Statement prepared under the indirect method, are incomplete and that disclosures in relation to line items b) and c) (see below) have been omitted.

17. Paragraph 3.4.2.67 of the 2011/12 Code prescribes the minimum line items that must be disclosed on the face of a Cash Flow Statement prepared using the indirect method.

18. Paragraph 3.4.2.68 of the Code identifies the amounts (where relevant) **that are required to be included** in the following line items of the statement:

b) adjust net surplus or deficit on the provision of services for non-cash movements
c) adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities
e) investing activities
f) financing

19. Paragraph 3.4.2.69 further states that:

"a local authority shall consider presenting the detail of the amounts of major classes of gross cash receipts and gross cash payments rising from operating, investing and financing activities (see paragraph 3.4.2.68) in the Cash Flow Statement based on the indirect method where such presentation is relevant to an understanding of the authority's cash flow position, or otherwise in the notes".

20. The required disclosures in relation to Investing and Financing Activities are provided in Notes 27 and 28 to the Example Financial Statements in the 2011/12 Code Guidance Notes. However authorities may instead make these disclosures on the face of the statement.

21. In relation to operating activities, paragraph 3.4.2.70 of the 2011/12 Code Update requires authorities to disclose separately, either in the Cash Flow Statement or in the notes, cash flows from interest and dividends received and paid (dividends paid will only be applicable to group accounts). The required disclosure is already included in Note 26 to the Example Financial Statements. Authorities may wish to disclose further classes of operational receipts and payments if they consider them to be material and relevant to an understanding of the authority's cash flow position.

22. It is recommended that, where material, authorities should disclose amounts included in line items b) and c) above in the notes to the financial statements. A suggested disclosure format is set out as follows:

ADJUST NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS [*Line item b)*]

20X0/X1 £000		**20X1/X2 £000**
X	Depreciation	X
X	Impairment & downward valuations	X
X	Amortisation	X
X	Increase/(decrease) in impairment for bad debts	X
X	Increase/Decrease in Creditors	X
X	Increase/Decrease in Debtors	X
X	Increase/Decrease in Stock	X
X	Movement in pension liability	X
X	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	X
X	Other non-cash items charged to the net surplus or deficit on the provision of services	X
X		**X**

ADJUST FOR ITEMS INCLUDED IN THE NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES[1] [*Line item c)*]

20X0/X1 £000		20X1/X2 £000
X	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	X
X	Proceeds from the sale of PP&E, investment property and intangible assets	X
X	Any other items for which the cash effects are investing or financing cash flows[2]	X
X		**X**

ASSETS HELD FOR SALE - REQUIREMENTS REVISITED

23. Authorities are reminded of the requirement to classify assets as held for sale when their carrying amount will be recovered principally through a sale transaction, rather than through continued use.

24. Paragraph 4.9.2.13 of the Code requires that a non-current asset for disposal (or disposal group) will meet the classification of non-current assets held for sale, when the following four criteria are met in full:

- The asset (or disposal group) must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets (or disposal groups).

- The sale must be highly probable; the appropriate level of management must be committed to a plan to sell the asset (or disposal group) and an active programme to locate a buyer and complete the plan must have been initiated.

- The asset (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to its current fair value.

- The sale should be expected to qualify for recognition as a completed sale within one Year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdraw.

25. Authorities must carefully consider the above criteria when determining whether or not assets are treated as held for sale. In cases where the authority intends to sell assets but the criteria in paragraph 4.9.2.13 of the Code is not met, such assets may still need to be reclassified as either surplus assets within Property, Plant and Equipment, or as investment property (see paragraph M7 of the 2011/12 Code Guidance Notes for further details).

26. Detailed guidance on accounting for Surplus Assets and Assets Held for Sale can be found in Module 4 of the 2011/12 Code Guidance Notes.

[1] Line item "Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)" was removed by the 2011-12 Code Update.
[2] Introduced by the 2011-12 Code Update.

CRITICAL JUDGEMENTS MADE IN APPLYING ACCOUNTING POLICIES-REQUIREMENTS REVISITED

27. Authorities are reminded that paragraph 3.4.2.78 of the Code requires that the judgements (apart from those involving estimations) that management have made in applying their authority's accounting policies should be disclosed in the summary of significant accounting policies or otherwise in a note to the accounts. The relevant judgements are those that have the most significant effect on amounts recognised in the financial statements.

28. Disclosure of these critical judgements should enable users of financial statements to better understand how the accounting policies are applied and to make comparisons between authorities regarding the basis on which management make these judgements.

29. In addition to disclosing the critical judgements made in applying the authority's accounting policies, it is essential to also provide an appropriate explanation of the factors that were taken into account and any assumptions made when making the judgement, together with the outcome.

30. For instance, an authority might declare that it has analysed its leases into finance leases and operating leases, however it should also set out what the determining factors were in its assessments and how particular significant leases have been classified (or include a cross reference to where this information can be found).

31. It is also important that judgements to exclude material items, which could impact on providing a 'true and fair view', from the accounts are also included. For instance, a decision not to treat a possible future transaction as a contingent liability.

32. The 2011-12 Code Guidance Notes provide further guidance in this area in Module 3, paragraphs I7-I10 and the example disclosure set out in note 3 of the Example Financial Statements.

COMPONENT ACCOUNTING (Including Derecognition Of Components) - POSITION UPDATE

33. Compliance with the Code's requirements in relation to component accounting is still an area for concern. In England for example, in their report "Auditing the accounts 2010/11" the Audit Commission reported that in many cases, asset registers were not set up to capture the detail required to enable bodies to consider and report on the values and asset lives of significant component parts of their total assets.

34. Authorities are reminded that where an item of Property, Plant & Equipment has major components with a cost that is significant in relation to the total cost of the item, the components should be depreciated separately where their useful life or method of depreciation is different to that of the overall asset.

35. Furthermore, where components are replaced or restored, the carrying amount of the old component needs to be derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles of capitalising expenditure being met. Recognition and derecognition takes place regardless of whether the replaced part has been depreciated separately.

36. In the case of Investment Properties, which are not depreciated, component accounting will apply in respect of the recognition and derecognition of components when enhancement expenditure is incurred.

37. Local authorities are reminded that with effect from 1 April 2010 they are required to prospectively apply component accounting to assets when they are first acquired, enhanced or revalued (after 1 April 2010). In order to comply with the accounting

requirements of the Code, authorities should continue to refer to the guidance provided in LAAP 86, which is still extant, and applicable to **all** assets, including Housing Revenue Account assets.

38. Further guidance is provided in the 2011/12 Code Guidance Notes in Module 4, paragraphs B46-B49 and paragraph D11 onwards. An example of how the carrying amount of an old component could be estimated, for de-recognition purposes, is provided in paragraph E17 of that module.

DISCREPANCY BETWEEN THE CODE GUIDANCE NOTES AND S*e*RCOP - CULTURE, ENVIRONMENT, REGULATORY AND PLANNING SERVICES [England and Wales]

39. As a result of changes to the Service Expenditure Analysis introduced by the 2011/12 S*e*RCOP, the Culture, Environment, Regulatory and Planning Services has been split into three as follows:
    - Cultural and Related Services,
    - Environmental and Regulatory Services and
    - Planning Services

40. The above change has not been reflected in the example Comprehensive Income and Expenditure Statement in the 2011/12 Guidance Notes in either the Example Financial Statements or the Alternative Presentations (see pages 288 and 402), which still present the three services as a single line item.

41. Therefore, to comply with paragraph 3.4.2.43a) of the Code, authorities are required to report the above services as separate line items in their 2011/12 Comprehensive Income and Expenditure Statement for the current and comparative year, in accordance with S*e*RCOP requirements.

42. The above correction will be made in the 2012/13 Guidance Notes.

USE OF EXAMPLE FINANCIAL STATEMENTS FOR PREPARATION OF THE 2011/12 ACCOUNTS

43. Authorities are reminded that the Example Financial Statements included in the appendix to Module 3 in the 2011/12 Code Guidance Notes have been provided to illustrate the requirements of the 2011/12 Code.

44. Care should be taken in treating the example in guidance as a template for the preparation of the Statement of Accounts. It is not guaranteed to provide a definite interpretation of the Code’s provisions or to contain all the disclosures that individual authorities might need to make, in order to give a true and fair view of their own financial position and performance. As the guidance contains examples covering a wide range of circumstances, some illustrations therein will not be applicable to all authorities.

45. Where authorities consider that an alternative presentation best presents their information, an alternative presentation section has now been included and comprises an alternative Comprehensive Income and Expenditure Statement, Balance Sheet and certain notes.

46. However, in recognition of the comments set out above, when preparing their Financial Statements for 2011/12, authorities should ensure that, although they must properly disclose material items in their accounts (eg. see Section B below in relation to the presentation of material items of income and expenditure), they are

not required to provide a specific disclosure required by the Code if the information is not material[3].

47. Authorities should refer to Chapter 2 of the Code and Module 2 of the Code Guidance Notes for further guidance in relation to the Qualitative Characteristics of Financial Statements.

SECTION B - OTHER ISSUES AFFECTING THE 2011/12 CLOSURE OF ACCOUNTS

ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED-IFRS 7 *Financial Instruments: Disclosures (transfers of financial assets)*

48. Paragraph 3.3.2.13 of the 2011/12 Code and 2011/12 Code Update requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. In addition, 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.

49. The amendments to IFRS 7-*Financial Instruments: Disclosures* (transfers of financial assets, issued October 2010), are intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the authority's financial position. However, CIPFA/LASAAC is of the view that the transfers described by the standard do not occur frequently in local authorities. Relevant circumstances would arise where an authority retains ownership of a financial asset but contracts to reassign or otherwise pay over the cash flows generated by the instrument, at the same time as retaining substantially all the risks and rewards of ownership.

50. Authorities should refer to the Appendix C Addendum to the 2011/12 Code Update in relation to their own disclosures regarding IFRS 7-*Financial Instruments: Disclosures* (transfers of financial assets).

DEFINITION OF STATEMENT OF ACCOUNTS

51. There is no formal definition in Regulations or the Code of what exactly constitutes the Statement of Accounts. However, reliance can be placed on the implications of section 9 of the Audit Commission Act 1998 that the auditor must give an opinion on the Statement of Accounts and the conventions as to the information that auditors are expected to be able to determine as true and fair. Under these conventions, the annual governance statement (AGS) (or equivalent statement), the auditors report and the explanatory foreword would be outside the scope of the Statement of Accounts, which would then comprise the financial statements and the notes to the accounts (including the summary of significant accounting policies).

52. The Statement of Accounts is thus part of a wider annual financial report (albeit one without a formal name), and effective presentation would make clear the separate elements of this report. For instance, for publication on the website, the opening page could be headed with the authority's term for the overall annual financial report. Separate links would then be provided under this heading to the Explanatory Foreword, the Statement of the Accounts and the AGS.

[3] Paragraph 3.4.2.25 of the 2011/12 Code, see also 2.1.2.7 and 3.3.2.9 of the Code.

53. In the more traditional format, an authority would produce a single document, but the table of contents would separate and distinguish clearly the main elements of the annual financial report.

54. This approach would also make it clear which parts of the annual financial report were covered by the responsible financial officer's true and fair certification. In particular it would remove the risk that the responsible financial officer could be taken to have provided assurance that the AGS was true and fair.

55. It also clarifies what is meant by paragraph 4 of The Accounts and Audit (England) Regulations 2011 which contains a clarifying provision that authorities must ensure that the Annual Governance Statement (AGS) accompanies the Statement of Accounts.

PRESENTATION OF MATERIAL ITEMS OF INCOME AND EXPENDITURE

56. Paragraph 3.4.2.51 of the Code requires that an authority shall disclose separately the nature and amount of material items of income or expense. Disclosure can often be made effectively in a note to the Comprehensive Income and Expenditure Statement (CIES). However, some items will be so material to an understanding of an authority's financial performance that fair presentation requires them to be shown on the face of the CIES.

57. In 2010/11 there were two transactions that were likely to be highly material for the authorities to which they were relevant:

- the impact on non-distributed costs of the change in the inflation measure for retirement benefits from RPI to CPI
- the revaluation losses attributable to the revision of DCLG's adjustment factors for social housing [England only]

58. The disclosure of these items is still a substantial matter for the 2011/12 statement of accounts, as the transactions will be embedded in the comparative figures for 2010/11. Practitioners at most authorities will therefore have the continuing task of presenting the items fairly, together with any items that have arisen in 2011/12. For example, for most housing authorities the self-financing settlement payment is likely to have a highly material impact on the HRA Income and Expenditure Statement (and the CIES).

59. Where items are presented separately on the face of the CIES or HRA Income and Expenditure Statement, practitioners need to take care to ensure that each item is linked to the line where it would otherwise have been consolidated. This allows readers to appreciate the nature of the transactions within their proper context.

60. Practitioners will need to consider whether providing sub-totals makes the presentation clearer or more cluttered. The following example CIES extract does not include sub-totals.

2010/11				2011/12		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
4,970	(3,765)	1,205	Central services to the public	5,023	(3,898)	1,125
4,541	(3,790)	751	Cultural and Related Services	5,078	(3,577)	1,501
6,812	(5,685)	1,127	Environmental and Regulatory Services	7,617	(5,366)	2.251
2,271	(1,895)	376	Planning Services	2,539	(1,789)	750
63,401	(20,496)	42,905	Education and children's services	65,443	(20,289)	45,154
23,988	(7,930)	16,058	Highways and transport services	24,395	(7,934)	16,461
245,324	-	245,324	Local authority housing – revaluation losses loss on dwellings	-	-	-
-	-	-	Local authority housing – settlement payment to Government for HRA self-financing**	135,638	-	135,638
25,787	(26,901)	(1,114)	Local authority housing - other	27,154	(26,847)	307
4,250	(3,857)	393	Other housing services	4,341	(3,626)	715
16,872	(5,518)	11,354	Adult social care	17,715	(5,334)	12,381
447	(65)	382	Corporate and democratic core	487	(68)	419
(34,194)	-	(34,194)	Non distributed costs – change in inflation factor for retirement benefits	-	-	-
604	-	604	Non distributed costs - other	854	-	854
365,083	**(79,902)**	**285,181**	**Cost of services**	**296,284**	**(78,728)**	**217,556**
1,996	-	1,996	Other operating expenditure	2,218	-	2,218
10,206	(2,123)	8,083	Financing and investment income and expenditure	11,340	(2,359)	8,981
-	-	-	Taxation and non-specific grant income: HRA self-financing settlement**	-	(75,222)	(75,222)

-	(76,388)	(76,388)	Taxation and non-specific grant income: other	-	(84,876)	(84,876)
377,285	**(158,413)**	**218,872**	**Surplus/deficit on the provision of services**	**309,842**	**(241,185)**	**68,657**

** These two transactions are mutually exclusive. Their applicability depends on whether an authority has either made or received a settlement payment in relation to HRA self-financing.

CLARIFICATION IN RELATION TO GUIDANCE IN THE DCLG PUBLICATION STOCK VALUATION FOR RESOURCE ACCOUNTING GUIDANCE FOR VALUERS–2010 AND THE 2011/12 CODE [England only]

61. The DCLG publication Stock *Valuation for Resource Accounting Guidance for Valuers – 2010* refers to assets that are surplus to requirements. Following discussions with DCLG officials it has been confirmed that this is intended to refer only to those assets that meet the definition of non-current assets held for sale as defined in IFRS 5 (as adapted or interpreted in the Code) and not Surplus Assets as defined in the Code[4].

LEISURE TRUSTS - SPECIAL PURPOSE ENTITIES (SIC 12) APPLICATION

62. The application of SIC 12 'Special Purpose Entities' has been raised in Scotland, particularly in relation to Leisure Trusts.

63. Practitioners in all jurisdictions, are reminded that the 2011/12 Guidance Notes for Practitioners provide guidance on the matter, in Module 9 paragraphs 15–22. Further guidance can be found in the "Group Accounts in Local Authorities (Practitioners' Workbook) 2011" paragraphs 53–57.

FINANCIAL RATIOS – [SCOTLAND ONLY]

64. The Scottish local authority 'Directors of Finance section' has agreed in principle that selected financial ratios may be appropriately used or referred to in the Explanatory Foreword. The intention is to support interpretation of the financial statements and an explanation of the authority's financial position and performance. Inclusion of the ratios is not mandatory.

65. The financial ratios selected are generally already compiled by Scottish local authorities, although practitioners may wish to review the timing of their calculation where they are proposed for inclusion in the Explanatory Foreword. This is on the basis that the foreword would normally be anticipated to be based on the current situation as at 31 March 2012.

66. The financial ratios are shown in the table below:

[4] Surplus Assets as defined in the Code paragraph 4.1.2.2 are those assets that are not being used in the delivery of services but which do not meet the criteria as non-current assets held for sale.

Indicator Category	Indicator Details
Reserves 1	Uncommitted GF / Annual Budgeted Net Expend (normally as a %)
Reserves 2	Movement in the Uncommitted GF Balance (value or % change)
Council Tax 1	In-year collection rate (%)
Council Tax 2	Council Tax Income / Overall Funding (%)
Financial Management 1	Actual outturn compared to budget [net service expend] (value &/or % ?)
Financial Management 2	Actual contribution to/from Uncommitted GF balance (value)
Debt & Borrowing [Prudence] 1	Capital Financing Requirement [current year]
Debt & Borrowing [Prudence] 2	External Debt levels [current year]
Debt & Borrowing [Affordability] 1	Ratio of financing costs to net revenue stream
Debt & Borrowing [Affordability] 2	Impact of Capital investment on Council Tax & Housing Rents

CHANGE TO TEACHERS TERMS & CONDITIONS - [SCOTLAND ONLY]

67. The SNCT terms and conditions for Scottish teachers have changed during 2011/12. The new SNCT handbook is available at:

http://www.snct.org.uk/wiki/index.php?title=Table_of_Contents

68. A significant change has been effected in terms of the view taken of the working year:

	Previously	New
Total days (excl weekends)	261	261
School Closure Days *1 & *2		(26)
Days regarded as being paid for	261	235
Working Days	(195)	(195)
Annual Leave Entitlement	66	40
Leave entitlement per working day	0.3385	0.2051

*1 School closure days are allocated locally by 'Local Agreement' (LNCT). SNCT paragraph 5.6 requires a proportionate allocation throughout the year.

*2 School closure days may now potentially be regarded as 'non-accumulating' (i.e. there is no carry forward entitlement for compensation or later use) with the exception of situations outlined in SNCT paragraph 5.7 (i.e. maternity leave, adoption leave and paternity leave situations). Clearly where a payment is made to settle such entitlement during the financial year the entitlement will not exist as at 31 March

69. The following comments are provided as interpretative guidance:

a) Some days within school holiday periods are now 'school closure' days. The SNCT view of these would appear to be that (with some exceptions for specific circumstances) these are 'non-accumulating' absence days

b) This change is therefore likely to lead to a change in the calculation of the accumulating annual leave entitlement for teachers as at 31 March 2012

c) The change may also affect the 'normal' accrual of salary at the 31 March 2012

d) The exact impact will be specific to each authority since each authority may have a different pattern of 'school closure' days throughout the year (although the SNCT does require that the days are spread proportionately to each school holiday period).

NOTIFICATION OF OTHER BULLETINS REQUIRED FOR THE PREPARATION OF THE 2011/12 ACCOUNTS

LAAP 91-ACCOUNTING FOR CARBON REDUCTION COMMITMENT (CRC) ENERGY EFFICIENCY SCHEME in 2011/12

70. The 2011/12 financial year is the first year for which there will be an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions. Following the end of 2011/12, participating authorities will submit the annual report on their emissions for the 2011/12 financial year. The retrospective purchase of allowances is anticipated to take place from 1st June 2012. Participating authorities are then required to surrender allowances to the scheme by the last working day in July 2012 in proportion to their reported emissions for the preceding scheme year and in accordance with the scheme requirements.

71. The accounting treatment recommended for the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme In 2011/12 is set out in LAAP Bulletin 91 which is available at:

http://www.cipfa.org.uk/pt/laap.cfm

LAAP 92-THE ACCOUNTING TRANSACTIONS IN RELATION TO THE SETTLEMENT PAYMENTS DETERMINATION 2012-(HOUSING REVENUE ACCOUNT (ENGLAND))

72. On 28 March 2012 each local (housing) authority will either pay the Government or receive from the Government an amount set out in the Settlement Payments Determination 2012 in order to exit the current housing subsidy system.

73. The Bulletin also reflects CIPFA's understanding from the DCLG that the Settlement Payments transactions including the premiums will need to be easily identifiable within the financial statements of local authorities for Whole of Government Accounts purposes.

74. To assist authorities with the accounting entries required for making or receiving settlement payments to or from the Secretary of State, CIPFA has issued LAAP Bulletin 92, which is available at:

http://www.cipfa.org.uk/pt/laap.cfm

SECTION C – EXIT PAGKAGES - DISCLOSURE REQUIREMENTS

Introduction

75. Local Authorities will be aware that the 2011/12 Code has introduced a new requirement to disclose in bands the numbers of exit packages agreed and the cost of those packages to the authority in the financial year, in accordance with the requirements of paragraph 3.4.4.1, 7 (b). As with the vast majority of the non-statutory disclosures to the financial statements, this disclosure should relate to the financial consequences of the item in question ie of the exit packages recognised and reported in the financial statements. In the interests of "cutting clutter[5]" in the financial statements, it is recommended that the exit package disclosure is amalgamated with the requirements of paragraph 6.3.3.2 of the 2011/12 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) in relation to the disclosure of termination benefits, where material.

76. It should be noted that where confidentiality issues arise in relation to the disclosure of exit packages authorities will need to seek the advice of their legal advisors on what can or cannot be included in the disclosure.

Recognition and Measurement

77. Paragraph I148 of Module 3 of the Guidance Notes[6] sets out that this means "those packages for which the authority is demonstrably committed". The agreement may be legal or constructive at the end of the financial year in question.

78. Paragraph I148 also sets out that the cost included in the exit packages disclosure will be those termination benefits defined and measured in accordance with chapter six of the Code (see Module 6, section C). The disclosure of exit packages will therefore need to be reported following the recognition and measurement requirements of Section 6.3 Termination Benefits of the Code – the specific paragraphs in Module 6 Section C that are particularly relevant are highlighted below.

79. Local authorities will therefore need to include those costs of exit packages that are reported in the Comprehensive Income and Expenditure Statement across the relevant services and in Non-Distributed Cost eg redundancy costs (voluntary and compulsory), the accrued cost of added years (the pension strain), and other departure costs etc. This will include any termination benefits accrued and provided for under IAS 19 *Employee Benefits* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as adopted by the Code (see paragraph C9 and C10 of Module 6 of the Guidance Notes).

[5] This expression emanates from the Discussion Paper, *Cutting Clutter*, issued by the Financial Reporting Council in April 2011 which focusses on reducing clutter in Annual Reports – the principles in the publication are also applicable to financial statements in local authorities.
[6] Code of Practice on Local Authority Accounting in the United Kingdom, Guidance Notes for Practitioners 2011/2012 Accounts , CIPFA, December 2011.

80. Paragraph 6.3.2.5 of the Code states that, in the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer. Exit packages relating to the voluntary redundancies in question should be estimated on this basis. Paragraph 6.3.3.1 of the Code states that where there is uncertainty about the number of employees who will accept an offer of termination benefits a contingent liability exists, which requires disclosure under paragraph 6.3.3.1 and the requirements of Chapter 8 of the Code.

81. There may be occasions where the actual cost for exit packages is lower or higher than estimated in the provision. It will be important that adequate explanation is given in the relevant financial statements to ensure that it is clear which packages are disclosed in each financial year's statements.

Pension Strain

82. Pension strain arises when an employee retires early without actuarial reduction of pension. As noted above, authorities will need to report the accrued cost of the pension strain resulting from the exit/departure of the employee recognised in the Comprehensive Income and Expenditure Statement in the exit package disclosure and not the cash payments made to the pension fund.

83. Further guidance in relation to the accounting treatment of the pension strain is provided in Module 6, Section D *Post Employments Benefits* of the 2011/12 Code Guidance Notes. However, it should be noted that with the exception of any of the pension strain relating to ill health retirements (see also paragraph 89 below) such costs are termination benefits. Clarification to this effect will be included in the 2012/13 Code Guidance Notes.

Disclosing Costs Charged to the Comprehensive Income and Expenditure Statement

84. It is possible that although authorities will have sufficient certainty to provide for the cost of termination benefits, they may not be able to give exact numbers that will be able to be slotted into the exit packages bands. However, where authorities are able to do this, they should allot the packages into the individual bands required by the disclosure.

85. The example illustrative text at the end of this Section of the Bulletin suggests that additional commentary be made in addition to the table included in disclosure note 36 in the Guidance Notes (see Guidance Notes page 366). This additional commentary sets out any costs provided for in the financial statements that are not able to be included in the appropriate bands of the disclosure note table. The commentary would need to demonstrate the actual (or estimated) numbers and cost of staff that have been provided for but not included in the bands. Authorities may wish to add an additional line to the illustrative example included in the guidance notes to reconcile to the total cost of termination benefits recognised in Comprehensive Income and Expenditure Statement.

86. The commentary in the illustration also includes the estimated voluntary early retirement packages and numbers of staff provided for under the Code's provisions for IAS 19 that the authority is not able to slot into an appropriate band.

87. Authorities may also wish to add further relevant context in relation to exit packages to this disclosure. This might include consideration of how material termination benefits are reflected in this disclosure as arguably the bands may mean that all termination benefits are included.

Which Exit Packages?

88. The Code does not set out a precise definition of exit packages and authorities will need to consider the relevant costs of departure that have been recognised in the financial statements in accordance with the Code's requirements on termination benefits. Therefore, as set out in the recognition and measurement section above authorities will need to disclose the costs of all relevant exit packages covered by the disclosure and the definition of termination benefits in the Code (see paragraph 6.1.2.1 of the Code for the definition of termination benefits). One specific issue might need some further consideration, ie exit packages relating to ill health retirements.

Ill Health Retirements

89. LAAP is of the view that exit packages relating to ill health retirements or departures are not termination benefits in accordance with the requirements of the Code. Ill-health retirements are not discretionary and not within the gift of an employer. The employer has no control over whether an individual is awarded an ill-health pension or any augmentation of service which may arise as a consequence and therefore should not be included in the exit packages disclosure as these costs do not meet the definition of termination benefits in paragraph 6.1.2.1 of the Code.

ILLUSTRATIVE ADDITIONAL COMMENTARY

The total cost of £x in the table above includes £x for exit packages that have been agreed, accrued for and charged to the authority's Comprehensive Income and Expenditure Statement in the current year. In addition the authority's Comprehensive Income and Expenditure Statement includes a provision for £x which has been agreed and is payable to y officers these costs are not included in the bands and therefore an additional line has been added to reconcile to the total cost of termination benefits reported in the Comprehensive Income and Expenditure Statement[7]. The authority has also provided for z officers in the Library Department who it has estimated will accept a voluntary redundancy package at a cost to the authority of £x these costs are, however not included in the above table as it is not possible at this juncture to slot the employees exit packages into the appropriate bands (these costs are also included in the additional line).

SECTION D – AUDITORS FEEDBACK FOLLOWING THE 2010/11 AUDIT OF ACCOUNTS

Authorities in England

90. In their report "Auditing the accounts 2010/11", published in December 2011, the Audit Commission's acknowledged that the transition to IFRS was a significant challenge for councils, local government bodies and police and fire and rescue authorities. However, despite this, audit opinions were issued by 30 September for the majority of bodies, achieving similar levels of performance to the previous year. Furthermore, at the date of preparing their report, the Audit Commission confirmed that only one audit opinion had been qualified. The Audit Commission congratulates bodies on managing the transition to IFRS so well.

[7] Note that this is not a requirement of the Code but has been added as an illustration of how such information might best be presented. There is no direct requirement to reconcile to the Comprehensive Income and Expenditure Statement. However, an effective disclosure should be able to demonstrate the financial consequences of the exit packages in the Comprehensive Income and Expenditure Statement. Authorities may wish to consider alternative ways of presenting this information.

91. However, although local government coped well with the transition, the Commission reported that nearly two-thirds of bodies had to adjust their accounts to correct material misstatements identified during the audit. It was further reported that the number of non-trivial unadjusted errors had increased at around half of bodies, a significant increase compared with the previous year, and noted that this could become an issue in future years due to the requirement for auditors to consider the cumulative impact of such errors. This is a significant increase compared with the previous year.

92. In relation to "Challenges for 2011/12, the Commission noted that the most significant challenge for relevant bodies will be to build on the lessons learned from the first year of IFRS adoption as there will be continuing issues for the 2011/12 accounts. Keeping up to date with IFRS developments and undertaking training on emerging financial reporting issues will be important to help bodies embed the required knowledge, technical skills and processes in their routine financial management and financial reporting arrangements.

93. The Commission further reminds bodies that they will need to give sufficient focus to the preparation of WGA returns for 2011/12, including early engagement with their auditor to plan the process to meet the deadline. These comments reflect the fact that the timeliness of information provided by bodies to support WGA has been a continuing concern and that in 2010/11, auditors of almost 10 per cent of bodies were still not in a position to issue the assurance report on the WGA return one month after the deadline. They note that although issues associated with IFRS are likely to have contributed to the delays, they are not solely responsible.

94. The Audit Commission's full report can be viewed at the Commission's website at:

http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/Auditing_accounts_principal_bodies.pdf

Authorities in Scotland

95. In their report 'An overview of local government in Scotland' published in March 2012, Audit Scotland acknowledged that the introduction of IFRS had brought additional work for finance departments, with a substantial increase in the information included in published accounts. Councils coped well with the changes but some auditors highlighted concerns about the quality of the accounts presented for audit and the need for significant changes as a result of the audit.

96. However, unmodified audit opinions were issued for all local authorities in 2010/11, except one where the auditors qualified their opinion due to the exclusion of a charitable trust from the group financial statements. The first year of the separate audits of local government pension funds generally went well and none of the audit opinions were modified.

Audit Scotland's full report can be viewed at:

http://www.audit-scotland.gov.uk/docs/local/2012/nr_120315_local_authority_overview.pdf

Authorities in Wales

97. In their report "Local Authority Accounts 2010/11" published in February 2012, the Wales Audit Office acknowledged that 2010-11 was a challenging year for Welsh

authorities, the most significant of which, arose from the adoption of International Financial Reporting Standards (IFRS) for the first time.

98. The report confirmed that bodies generally coped well with the changes required to the preparation and presentation of accounts. Unqualified audit opinions were issued on the majority of accounts and only two authorities failed to meet the statutory deadlines for the production and approval of their accounts. The majority of authorities had produced their Whole of Government Account returns on time.

99. However, the report advises that some authorities are not fully meeting the requirement to 'publish' their accounts by 30 September and that many of the accounts required some form of amendment following audit. The Wales Audit Office have stated that they expect to see improvement for the 2011/12 year.

100. The Wales Audit Office's full report can be viewed at:

http://www.wao.gov.uk/assets/englishdocuments/Local_Authority_Accounts_2012_Eng.pdf

SECTION E - WHOLE OF GOVERNMENT ACCOUNTS (WGA)

ENGLAND

2009-10

101. In 2009-10 the first ever Whole of Government Accounts was published. This marks a huge achievement for UK public sector in preparing and publishing the most comprehensive accounts presented on a commercial accounts basis and is a significant step forward in financial management.

102. The overall accounts were very well received by the Public Accounts Committee and the chair welcomed the increased transparency these provided. The accounts were also used by the Office for Budget Responsibility in its report on Long term fiscal sustainability. These both should highlight the importance of the milestone that has been achieved following the publication of the first WGA.

103. English local government is a significant part of the overall sub-consolidation and so share the success of the publication and the value that is generated from having an audited WGA – the largest and broadest in scope across the world.

104. This is only the start of the journey as the audit opinion on the WGA was qualified. The main issue that continues to be a challenge for the sub consolidation are elimination differences particularly in respect of the government grant streams. The elimination of government grant balances with Local Authorities is the most significant part of the WGA elimination process and continuous improvement in this area is a priority.

2010-11

105. In 2010/11 local government bodies' statements of accounts were prepared in accordance with International Financial Reporting Standards for the first time. This meant that local authorities had to restate many of their 2009/10 closing balances which been prepared under the Statement of Recommended Practice following UK Generally Accepted Accounting Practice. All of this information had to be captured for WGA as this was the second year of publication and so prior year comparatives were required.

106. There were two main deadlines – 29th July 2011 for the submission of the unaudited L-packs and 30th September 2011 for the submission of the audited L-Packs.

107. Five WGA training events in conjunction with CIPFA and HM Treasury were held across the country. About 200 delegates attended these events which were deemed to be very helpful.

108. A 100% return rate was achieved for the unaudited returns, however only 62% of authorities submitted their unaudited returns within the stipulated timeframe. So far, there has been a 97% return rate for the audited returns, this has mainly been as a result of some authorities having not received an audit opinion on their statement of accounts. 70% of local authorities returned their audited L-Packs within the deadline specified.

109. In January 2012, all local authorities were invited to provide some feedback on the 2010/11 process. They asked to give feedback on what they felt went well, didn't work well and also to give suggestions on which areas of the L-pack can be improved. All the comments received have been passed on to the WGA team at HM Treasury. This is being incorporated into the development of the L pack for 2011-12.

2011-12

110. The 2011-12 L pack is in the final stages of development and the plan is to have this issued by 30th April 2012.

111. The pack has been developed according to feedback from the 2010-11 exercise, observations by the auditors and feedback provided by local government bodies.

112. The L pack is due to be issued for management review on 31st March 2012. A separate spreadsheet detailing the key changes will accompany the management review.

113. Many authorities have signed up to assist in this invaluable process, but if others want to participate please contact wga.team@hmtreasury.gsi.gov.uk.

114. The indicative timetable for the completion of the returns remains broadly similar to last year ie the unaudited return must be returned by 31 July 2012 and the audited return by 30 September 2012.

115. As in previous years CIPFA and HMT will jointly be providing training events. We will provide further details as to timing and location of these events in due course.

WALES

116. The agreement process has become an integral part of the Whole of Government Accounts process in Wales and there have been significant improvements in the accuracy of the process for local government in 2010-11. The agreement process was expanded to cover all bodies in Wales and local authorities were also encouraged to complete agreements with central government bodies where applicable, which proved to be difficult in some cases. This process continues to provide the evidence to support the mismatches in transaction streams and balances reported.

117. Submissions of the draft L-pack based on unaudited accounts on an IFRS basis were required by 15th July 2011 and all local authorities in Wales achieved this deadline. As a result of issues affecting audit clearance for the statutory statement of accounts 2 local authorities could not submit the final WGA return by the deadline of 30th September 2011.

118. The Wales WGA Sub Group will be meeting in March to discuss issues and consider the feedback from local authorities with the aim of improving the process in preparedness for the 2011-12 exercise.

119. Draft L-packs based on unaudited accounts will be due by 13th July 2012. Local authorities in Wales will be encouraged to complete the Highways Infrastructure data for 2011-12 and there will be some audit activity to ensure the information for gross replacement costs (GRC) is completed.

SCOTLAND

120. To meet the requirements of HM Treasury, the timelines for WGA Scotland remain the same as 2010-11 with the deadline for completing the unaudited return being 29 July 2012 and for the audited return the deadline is 30 September 2012.

121. In order to improve WGA reporting, authorities should consider the following when preparing their 2011/12 returns:

- Although not audited, the information on infrastructure assets is important to HM Treasury, and authorities are urged to give this due attention
- On the reserves sheet, where authorities are unable to identify a transaction and allocate the transaction to 'other movements' please bear in mind that there should be no movements between usable reserves and statutory accounts. All transactions with statutory accounts should be capable of being identified and recorded on the relevant statutory adjustment line
- Please remember that deposits or loans with/from English local authorities will need to be identified and the CPID of the English authority recorded on the counterparty sheet.

NORTHERN IRELAND

122. In Northern Ireland, Treasury (through the Department of Finance & Personnel (DFP)) issue councils with WGA L packs to be completed and returned to Department of the Environment (DOE). The DOE upload the completed packs onto the HM Treasury COINS system. Any issues that arise as a result of the loading process are resolved between council finance staff and staff at DOE.

123. The 2010/11 year was a challenging year for Local Government in Northern Ireland with the transition to IFRS.

124. With regard to the WGA process the DOE were very happy with the standard of the WGA packs submitted. Most of the councils had their packs audited by NI Audit Office which led to the final version of the WGA packs going to DFP via the DOE in January/February 2012 as opposed to September in previous years, as a result of the transition to IFRS. There were no major issues reported, apart from a few amendments made to original packs as a result of the statutory audit process.

125. From a DFP perspective a few items were identified when the mismatch report was run. This report matches all balances disclosed by councils with other bodies within WGA boundary. The key issue is that Councils should bear in mind that only transactions/balances with other bodies that are greater than £1m need to be reported in their pack. All issues that arose in 2010/11 were resolved.