Item 8

Audit and Standards Committee

4th June 2015

Accounting for Local Authority Maintained Schools

Recommendation

The Audit and Standards Committee is recommended to:

- Agree that the accounting policy for school assets outlined in paragraph 4.2 as the basis for the preparation of the 2014/15 Warwickshire County Council Statement of Accounts.

- Note the amendments to the presentation of the statement of accounts in paragraphs 4.3 and Section 5 that will result from the change in accounting policy.

1.0 Purpose of the Report

1.1. As a local authority we are required to comply with the CIPFA[1] Code of Practice on Local Authority Accounting (the Code) when preparing our annual accounts. The 2014/15 Code includes new accounting requirements for schools in local authorities in England and Wales with which we are required to comply.

1.2. As part of their remit, in recommending the annual Statement of Accounts to Council for approval, the Audit and Standards Committee are required to approve accounting policies on which the financial statements are based and the approach adopted by the authority in complying with accounting requirements. It is therefore best practice where there has been a potentially material change in accounting policy the Audit and Standards Committee are able to consider and approve this change before it is implemented as part of the year end accounts production process (CIPFA's publication "Audit Committee: Practical Guidance for Local Authorities" (2013)).

[1] CIPFA: Chartered Institute of Public Finance and Accountancy

1.3. Also under Auditing Standards (ISA 260[2]) the external auditors will report to the Audit and Standards Committee their views on the acceptability of our accounting policies and, as there has been a change, they will comment on it in their formal Audit Findings Report that will come to the Committee in September. This reinforces why it is recommended practice that the Audit and Standards Committee would be aware of and approve any changes to accounting policies prior to the external auditors commenting on them as part of their reporting to Audit and Standards Committee.

1.4. Consequently, this report outlines our proposed approach to meeting the new accounting requirements for schools, why we have come to this conclusion and seeks the agreement of the Audit and Standards Committee to the accounting policy we will use as the basis for the preparation of the Warwickshire County Council Statement of Accounts for 2014/15 and future years.

1.5. The Committee should note that we have fully engaged with the external auditors as the approach outlined in the report was developed and also in how we intended to provide assurance about this impact of the change on our financial statements. The external auditors have indicated they are content with the approach outlined in the report.

2. Determination of Our Accounting Policy

2.1. Schools as Entities

Appendix E of the 2014/15 Code states that, under IFRS 10[3], maintained schools (but not free schools and academies) should be treated as ‘entities’ controlled by local authorities and that the local authority is required to account for these schools within their financial statements.

‘Entity’ means the management of the school i.e. the governing body, including the head teacher, and the resources it controls. Therefore where the governing body/head teacher controls the use of Dedicated Schools Grant, staffing, school buildings etc. the elements must be included as part of our accounts.

It is how we meet this requirement that has resulted in the need to change our accounting policies.

2.2. Running Expenses

[2] ISA 260: International Standard on Auditing - Communication to those charged with governance
[3] IFRS 10: International Financial Reporting Standard – Consolidated financial statements

For day-to-day running expenses determining 'control' is a relatively straightforward exercise as the allocation of Dedicated Schools Grant is agreed by the local authority, in consultation with the Schools Forum, and the governing body is responsible for how that funding is used. We already consolidate this expenditure, income, accruals, reserves and balances as part of our financial statements and therefore the changes made to the 2014/15 Code do not change our accounting policies.

2.3. Land and Buildings

However, for the assets used by the school i.e. the land and buildings the issue is more complex. For community schools, ownership of the assets rests with the local authority and the assets are already included as part of our financial statements. Therefore the new requirements will not change our accounting policy. For the other categories of maintained schools (voluntary aided, voluntary controlled and foundation schools) deciding whether the assets should be recognised in our financial statements is a more nuanced judgement.

Whether the school, as an entity, includes the premises and land that the school operates from will depend on whether those assets are controlled by the school management. This judgement has to be made using the relevant recognition tests contained in the Code and the International Accounting Standards (IAS) on which it is based.

Both the Code and IAS 16 [4]require that the cost of an item of property, plant and equipment "shall be recognised (and hence capitalised) as an asset on a Local Authority Balance Sheet if, and only if:

- It is probable that the future economic benefits or service potential associated with that item will flow to the authority, and
- The cost of the item can be measured reliably."

Paragraph 4.12 of the IASB[5] "Conceptual Framework on Local Authority Reporting" confirms that in determining the existence of an asset the right of ownership is not essential. If the entity controls the benefits/service potential this may satisfy the definition of an asset even when there is no legal control.

We already have agreed policies as to how we value community schools. Extending this valuation to voluntary aided, voluntary controlled and foundation schools is simply a matter of resourcing the additional valuations. The critical judgement is whether it is probable that "future economic benefits

[4] IAS 16: International Accounting Standard – Property, plant and equipment
[5] ISAB: International Accounting Standards Board

or service potential" will flow to the local authority and/or by extension to the school governing body.

Section 13 of the Education Act 1996 states:

> *"A local authority shall (in so far as their powers enable them to do so) contribute towards the spiritual, moral, mental and physical development of the community by securing that efficient primary education, secondary education and further education are available to meet the needs of their area."*

This can be read as determining that all maintained schools contribute to meeting our service objectives and should form part of our accounts. This position is further supported by academies and free schools deemed to be moving out of local authority control and that in doing so they are required to produce their own audited accounts which are consolidated into the Whole of Government Accounts.

The final part of the judgement is in relation to the word "future". Where ownership sits with the school governors then, as these are part of the 'single entity', the existence of control of future economic benefits and service provision is clear and the assets should be consolidated. This is the position for the foundation schools.

Where legal title rests with the diocese, or other third party, then the potential to dispose of the assets and preclude the local authority earning any potential future service benefits exists and further tests are required.

Section 30(11) of the School Standards and Frameworks Act 1998 provides that a reasonable period of notice is given to allow for any termination of the right to use the site as a school i.e. a period of not less than two years where termination of occupation would have the result that it is not reasonably practicable for the school to continue to be conducted in its existing site. We determine that this provision provides evidence of probable future service provision and the assets should be included in our accounts unless:

- We have received notice that the school, as an entity, will no longer be operating from the site within two years and/or
- We have received evidence from the owners of the site that they can withdraw occupation at any time.

Such an approach is also consistent with the objective of government policy to include all publicly funded assets in the Whole of Government Accounts. The exclusion/inconsistent treatment of the assets of voluntary aided, voluntary controlled and foundation schools assets in the Whole of Government

Accounts is one of the reasons why these accounts have been qualified in previous years.

The paragraphs above provide the background to explain why it is our intention to recognise these assets in our financial statements. As we do not currently consolidate the land and buildings of all maintained school assets in our accounts and this represents a change in accounting policy.

2.4. Donated Assets

There is a second element of the inclusion of all maintained schools as part of our single entity accounts. This is recognition of donated assets. School PTAs and Trusts are separate entities in their own right and any funds they hold under these charitable status arrangements are deemed not to be under the control of the school entity and hence should not be included in our accounts.

However, any assets provided by a third party and consumed in the provision of the education service within schools or donated to the school should now be included, subject to our prescribed de minimis levels. This is also a change in accounting policy.

3. Providing Assurance

3.1. Having determined the accounting policy the next step is to assure ourselves, the authority and the external auditors that there is a robust basis for the figures in the accounts. To ensure we met the recognition tests in the Code that the future economic benefits or service potential associated with each school will flow to the authority:

- We wrote to all voluntary controlled, voluntary aided and foundation schools, via their trustees/diocesan body, seeking confirmation (with evidence) of where the operation of the school from the site is terminable at any time without causal action.
- We used our legal archives, where such information was available, to determine the ownership of the assets and any rights of occupation as a school.
- We undertook a sample of land registry searches for each of the categories of school to provide supplementary evidence of ownership.
- We sought clarification from all voluntary controlled, voluntary aided and foundation schools, via their trustees/diocesan body, that our plans of the school site are up-to date. Where no response is received we will use our existing school plans as the basis of the valuation.
- We required all local authority maintained schools to provide details of any assets provided by a third party and consumed in the provision of the

education service within schools or donated to the school as part of their suite of returns at the end of the financial year. Where returns are not made we will assume a nil response.

3.2. We believe this approach provides a robust basis to support the figures in the accounts. Of the 87 voluntary aided, voluntary controlled and foundation schools in Warwickshire the change in accounting policy means the land and buildings valued at approximately £333 million will be considered for inclusion in our financial statements for the first time. To date no donated assets have been identified.

4. Impact on the Financial Statements

4.1. The financial statements of the County Council will be presented to the next meeting of the Committee, in September, for recommendation onto full Council for formal approval. This section highlights how/where the impact of the change in the accounting policy for schools will impact on our financial statements.

4.2. Accounting Policies

We will include a new policy on accounting for school assets as part of the statement of accounting policies. The proposed policy is:

School Assets (new)
The balance of control for local authority maintained schools is deemed to lie with the local authority. We therefore recognise schools' assets, liabilities, reserves and cash flows in our financial statements as if they were transactions, cashflows and balances of the authority. Any asset provided by a third party and consumed in the provision of education service within schools or donated to the school will be treated as a donated asset.

4.3. Notes to the Accounts

We will include a new note to the accounts on school property plant and equipment. The proposed format of the note is:

School Property Plant and Equipment (new)
The value of our school property, plant and equipment is £x.x million (2013/14 - £x.x million and 2012/13 - £x.x million). The table below shows a breakdown across the various types of school.

School Property, Plant and Equipment as at 31 March 2015					
Type of School	*Land* *£ million*	*Buildings* *£ million*	*Other Assets* *£ million*	*Donated Assets* *£ million*	*Total* *£ million*
Community					
Voluntary Aided					
Voluntary Controlled					
Foundation					
Total					

Whilst we recognise the assets of voluntary aided, voluntary controlled and foundation schools in our accounts we do not have the right to access or dispose of these assets to settle any liabilities.

4.4. There are a number of other notes to the accounts where we have a choice as to whether we show the information for each of the different types of school separately. These notes are: employee benefits, remuneration and termination disclosures and segmental reporting. In all of these notes we have always included the figures for voluntary aided, voluntary controlled and foundation schools as part of our accounts. We do not propose to begin showing these items separately.

5. **Restatement of Previous Year's Figures**

5.1. As the recognition of the assets of all maintained schools represents a change in accounting policies we are required to restate our accounts, as appropriate, as at 31 March 2014 and 31 March 2013 as if it had always applied.

5.2. We only intend to restate 2012/13 accounts and the position as at 31 March 2013 where the figure is material. The only material changes will be to the Balance Sheet and the notes to the accounts on property, plant and equipment and the Capital Adjustment Account. Therefore the figures for these elements will be recalculated and shown in the statements themselves as the recalculated figures. We will also disclose, as text or a table under each of the relevant parts of the financial statements, the nature of the change in accounting policy and the amount of the adjustment for each year presented.

6. **Background Papers**

6.1. Code of Practice on Local Authority Accounting in the United Kingdom – Guidance Notes for Practitioners 2014/15 Accounts – CIPFA December 2014

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