



the code of practice on local authority
accounting in the united kingdom
2011/12 code update (and 2012/13
Code)– accounting for non-current
schools' assets

invitation to comment

invitation to comment –

accounting for non-current schools' assets

introduction

1. Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Code Board (CIPFA/LASAAC). The Code is reviewed continuously and is normally updated annually.
2. Under the oversight of the Financial Reporting Advisory Board, the CIPFA/LASAAC Code Board is in a position to issue mid-year updates to the Code. As stated in the main invitation to comment (ITC) there have been a number of developments to statutory accounting or disclosure requirements which have taken place since the publication of the 2011/12 Code. This has required that a 2011/12 Code Update be issued. In addition, the move to International Financial Reporting Standards (IFRS) has meant that the treatment of non-current schools' assets has been subject to further discussion and debate. The CIPFA/LASAAC Local Authority Code Board considers that it is important, that, where possible, a resolution to the debate is presented in the Code. It therefore considers it necessary as a part of the consultation on the Code to issue this separate single issue ITC to the main ITC.
3. As with the 2011/12 Code the 2011/12 Code Update is applicable for the 2011/12 financial year and is based on accounting standards in effect on 1 January 2011 or earlier.
4. This ITC sets out CIPFA/LASAAC's proposals for developing the current (2011/12) Code in relation to non-current schools' assets with the resulting amendments to be included in the 2011/12 Code Update to apply to accounting periods commencing on or after 1 April 2011, and the new edition of the Code (the 2012/13 Code) to apply to accounting periods commencing on or after 1 April 2012. As set out above this separate ITC concerns only proposed amendments in relation to the accounting treatment of non-current schools' assets. The main ITC is also available on the consultation pages of the CIPFA website at <http://www.cipfa.org.uk/pt/consultations.cfm>
5. Respondents to the consultation are also invited to discuss the issues raised in the consultation paper with the relevant stakeholders for the assets in question, for example, governing bodies and the trusts that hold the property.

the consultation process

6. Where CIPFA/LASAAC is interested in specific issues, consultation questions have been included in the ITC. However, CIPFA/LASAAC welcomes comments on any aspect of the draft 2011/12 Code Update (or the 2012/13 Code). In order to assess comments properly CIPFA/LASAAC would prefer respondents to support comments with clear accounting reasons and, where applicable, preferred alternatives.
7. Responses to this Invitation to Comment will be regarded as on the public record unless confidentiality is specifically requested. Copies of all correspondence and

an analysis of responses will be provided to the Financial Reporting Advisory Board.

8. A copy of the Exposure for the Drafts of the 2011/12 Code Update and the 2012/13 Code including the proposed amendments in relation to non-current schools' assets in pdf format can be down-loaded from the CIPFA website <http://www.cipfa.org.uk/pt/consultations.cfm>
9. To assist authorities and other interested parties to respond to the consultation, a response form (in Word format) is attached. We would be grateful if authorities could use this form to respond to the consultation as this will speed up the analysis.
10. Responses are required by 30 September 2011 and may be sent to:

The Secretary
CIPFA/LASAAC Local Authority Code Board
Policy and Technical Directorate
CIPFA
3 Robert Street
London
WC2N 6RL

Fax: 020 7543 5695

E-mail: code.responses@cipfa.org

(For ease of handling, e-mailed responses using the Word document form provided are preferred.)

accounting for non-current schools' assets

11. Section 20 of the Schools Standards and Framework Act 1998 (SSFA) established the following categories of maintained schools in England and Wales.
 - (a) community schools;
 - (b) foundation schools;
 - (c) voluntary schools, comprising:
 - (i) voluntary aided schools, and
 - (ii) voluntary controlled schools;
 - (d) community special schools; and
 - (e) foundation special schools.
12. In England and Wales an authority does not have a general responsibility to provide school education; rather it is required under Section 13 of the Education Act 1996 to contribute towards the spiritual, moral, mental and physical development of the community by securing that efficient primary and secondary education are available to meet the needs of the population of their area.
13. It should be noted that this consultation paper is currently considered to apply only to maintained schools in England and Wales. CIPFA/LASAAC is not aware of any similar arrangements, discussed below, in Scotland and therefore is of the view that, at present, non-current schools' assets in Scotland are appropriately recognised in local authority balance sheets.
14. The issue of the accounting treatment of non-current assets (note this consultation focuses only on schools properties ie land and buildings) used by the different categories of maintained schools has been subject to debate for a number of years, without a firm conclusion being reached. The debate arises because the circumstances of each of the categories of maintained schools, such as ownership and access to economic benefits and service potential are different. The move to IFRS has resulted in authorities and auditors reconsidering the issue. In particular, consideration of whether IFRIC 12 Service Concession Arrangements and IFRIC 4 Determining Whether or Not the Arrangement Contains a Lease has been subject to further debate and scrutiny by local authorities and their auditors.
15. Because each category of school is subject to different circumstances, each category has to be considered separately to determine the appropriate application of accounting standards to each category. This ITC requests respondents' views on the application of accounting standards to each category, and on CIPFA/LASAAC's recommendations in respect of the appropriate accounting treatment for each category of maintained schools. As part of the consultation process, CIPFA/LASAAC will consult with HM Treasury, the Department for Education and the Office of National Statistics. This is to ensure that any changes incorporated into the Code are consistent with the requirements of the Whole of Government Accounts.
16. CIPFA/LASAAC has considered the relevant accounting standards and IFRIC Interpretations and how they are likely to apply across the different categories of maintained schools in terms of the recognition of schools property in local

authority balance sheets. CIPFA/LASAAC considers that IFRIC 12 Service Concession Arrangements, IFRIC 4 Determining Whether or Not the Arrangement Contains a Lease and IAS 17 Leases are not relevant to the determination of whether school's non-current assets should be recognised on the local authority's balance sheet, as set out in the following paragraphs. The ITC then considers the application of the recognition criteria under IAS 16 and IPSAS 17.

IFRIC 12 – Service Concession Arrangements

17. The arrangements between the maintained schools and local authorities do not represent a service concession arrangement. There is no contract for the provision of services by the schools and the schools are not providing new or enhanced infrastructure assets for the benefit of the authority. Therefore, IFRIC 12 does not apply, except when there are particular PFI or PPP arrangements set out for individual schools.

IAS 17 Leases

18. Unless there is a specific lease arrangement in place then the requirements of IAS 17 Leases do not apply. There is not a contractual or commercial arrangement in place in any of the schools arrangements; there are no cash flows or payment streams against which to measure the minimum lease payments to assess the fair value of the asset. Therefore the arrangements are not in form or in substance lease arrangements. Instead the substance of the relationships operates as a function of the interaction of the performance of each body's performance of their duties under statutory requirements.

IFRIC 4 – Determining Whether or Not the Arrangement Contains a Lease

19. The Code (paragraph 4.2.2.27) specifies that:
 - a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset), and
 - b) the arrangement conveys a right to use the asset.”
20. It is unlikely that either of the two criteria apply in these circumstances as the three conditions in the Code that determine whether or not the arrangement conveys the right to use an asset all require the local authority to be a purchaser (see Code, paragraph 4.2.2.30). The relationship between the authority and the schools is not one that requires fulfilment. Therefore under most circumstances IFRIC 4 is not likely to apply to the consideration of whether or not school's assets should be recognised on local authority balance sheets.

IAS 16 Property, Plant and Equipment

21. Having concluded that IFRIC 12, IFRIC 4 and IAS 17 are not relevant in determining the accounting treatment of schools' non-current assets, it is now necessary to consider the application of IAS 16 to these assets.
22. In order to recognise a non-current school's asset on the local authority's balance sheet an authority would need to follow the recognition requirements of the Code

under IAS 16 Property, Plant and Equipment. In particular, (paragraph 4.1.2.16) states;

“The cost of an item of property, plant and equipment falling under this section [Section 4.1] of the Code 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 the item will flow to the entity, and
- the cost of the item can be measured reliably.”

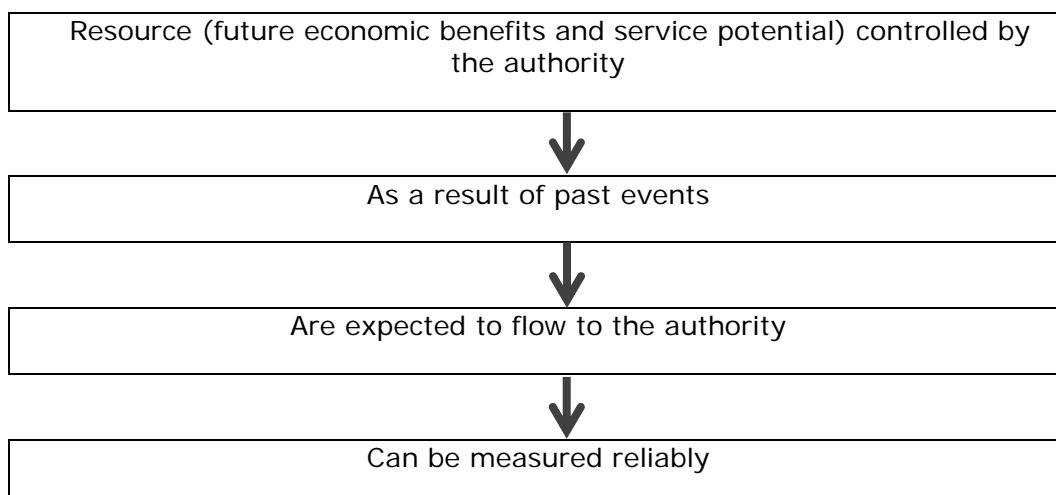
23. IPSAS 17 Property, Plant and Equipment recognises that an item of property, plant, and equipment may be acquired through a non-exchange transaction. The examples given in the IPSAS are contributions and sequestrations of assets. Such assets therefore do not have to be physically donated to meet the definition of a non-exchange transaction. IPSAS 17 sets out that under these circumstances, the cost of the item is its fair value as at the date it is acquired.

24. The Code, paragraph 2.1.2.18, requires that when assessing whether an item meets the definition of an asset attention needs to be given to its underlying substance and economic reality and not just its legal form. This paragraph is in accordance with paragraph 51 of the IASB Framework for Presentation of the Financial Statements (this part of the Framework is currently extant in the new Conceptual Framework, paragraph 4.6.). The IASB Framework for the Preparation and Presentation of the Financial Statements states that in determining the existence of an asset the rights of ownership are not essential (IASB Framework, extant paragraph 57). In the case of community schools the local authorities own the assets (and often own the playing fields in voluntary schools). The property of the remaining categories of schools is usually owned by the trustees or the governing body (see Annex A).

25. It is an important when considering whether an asset is recognised on a local authority's balance sheet that all aspects of the definition of an asset are satisfied. The Code paragraph 2.1.2.19 defines an asset as.

“... a resource controlled by the authority as a result of past events and from which future economic benefits or service potential are expected flow to the authority. “

The process for the recognition of non-current assets can be analysed in four stages combining the requirements of paragraphs 4.1.2.16 and 2.1.2.19:



26. The primary requirement is that there is service potential associated with the assets, and that the authority has control of that service potential. It is clear that school's non-current assets will provide service potential in that they are providing the means for education. It therefore follows that the first question to be answered is whether or not the local authority controls the service potential associated with the assets. Unless the authority controls the service potential, the asset cannot be recognised on the authority's balance sheet, and the other requirements become irrelevant.
27. Given the length of time that this issue has been debated, it is possible that a consideration of the conceptual issues above may not give a conclusive answer. Guidance as to the recognition of assets within the ASB's Statement of Principles for Financial Reporting Interpretation for Public Benefit Entities (SoPPBE) may be helpful. The SoPPBE can be relied on by following the hierarchy of standards provided in the Code (paragraph 1.1.6).
28. The SoPPBE sets out that the rights or other access should be controlled by the entity treating them as an asset. This means that a particular right or other access will only feature in one set of financial statements.
29. It therefore follows that to recognise an asset an authority should have sufficient control of the service potential of the asset to exclude recognition by other entities that also receive flows of service potential from the asset. Recognition (or otherwise) of the asset by other entities may therefore be a relevant factor in considering whether an authority should recognise the asset on its balance sheet.

Control of Service Potential

30. Service potential is not formally defined in IFRS or IPSAS. Service potential is defined by the International Valuation Standards Council as:

"The capacity of an asset to continue to provide goods and services in accordance with the entity's objectives." (International Valuation Application (IVA) 3, Valuation of Public Sector Assets for Financial Reporting (2007))

The SoPPBE includes the following commentary on service potential:

"service potential is the ability to be utilised to provide expected future goods and services (ie to fulfil a need or want of the identified customers/beneficiaries in furtherance of the entity's objectives" (SoPPBE paragraph 4.10).

Service potential therefore will be reflected in the ability of the property, plant or equipment to contribute to the provision of education in accordance with the standards required of maintained schools.

31. An authority's responsibilities for either repairs and maintenance or health and safety are not relevant to the flow of service potential to the authority. The issue raised from such a commitment would be whether provisions for liabilities need to be made.
32. Future benefits may flow to the authority when the assets are transferred back to the authority (if for example, a foundation school closes or is disposed of). As the authority cannot control whether this flow of benefits occurs, or if it does occur, when, this does not meet the control criteria for recognition of an asset.
33. In terms of service potential, as set out in the introductory paragraphs, authorities do not have a general duty to educate their local population but rather are required under Section 13 of the Education Act 1996 to secure that efficient primary and secondary education are available to meet the needs of the population of their area. In an analysis of the control of this service potential it is not likely to be sufficient for the school to be within the maintained framework for an authority to claim control over the service potential inherent in the non-current asset.
34. Although part of the maintained framework, it is not clear that the property occupied by foundation and voluntary aided schools is subject to sufficient control by the authority to satisfy the recognition criteria. The relationship is largely a funding one, with the authority having no direct control over the services provided by the schools, and hence over the service potential provided by the asset.
35. Circumstances are different in relation to community and voluntary controlled schools. In England and Wales the authority is able to control the admissions policy and (under Schedule 13 (1 and 5) of the 1998 Act) direct the occupation and use of premises as the authority sees fit. As such, the authority has a degree of control over the flow of service potential associated with the asset. It is notable, however, that the Department for Education A Guide to the Law for School Governors sets out that these directions can cover matters such as:
 - regular bookings for the youth service or for adult education;
 - security and caretaking;
 - what costs should be covered by charges.

These are not likely to be significant in terms of the overall service potential of the asset. In addition it is important to note that at all maintained schools the governing body controls the use of premises both during and outside school hours under Schedule 13 of the SSFA 1998.

36. The authority is the admission authority for community and voluntary controlled schools and is responsible for school admissions (except where the local authority has delegated this responsibility to the governing body with its agreement). Otherwise the governing body must, in accordance with statutory requirements, implement the local authority's decisions on individual applications and act in accordance with the authority's admission arrangements. In addition, in England, admission authorities of maintained schools must set admission numbers with regard to the capacity assessment for the school. In Wales the admission

authority must determine for each relevant age group an admission number which is the admission number determined by reference to the capacity of the school. Therefore in practice, an authority can determine who benefits from the use of premises and how the property is applied to the provision of education.

37. However, arguments can then be put as to why these powers are likely to fall short of transferring control of the service potential to the authority; whilst the ability to control admissions would assist the authority's statutory functions in relation to sufficient school places, the question arises as to whether this is sufficient to limit the governing body's control over the service potential to such an extent that control is transferred to the authority. The authority would determine the beneficiaries of the service, but it would need to be demonstrated that the authority is able to deny the governors control over the service potential in the assets, ie that the governors have been constrained in their preferred use of school premises (eg by setting an admissions number at substantially more or less than the governing body's assessment of the school's capacity¹) in order for the authority to meet its own service objectives.

Past Event

38. Most past event recognition criteria will arise as a function of the legal ownership or the use of the assets as a function of the statutory duties of local authorities or schools. It should be emphasised that to recognise the assets on the balance sheet the resources must be controlled by the authority as a result of a past event – situations where an authority might benefit are not relevant to the on/off balance sheet decision if the authority cannot control when or how these benefits might arise. For example, arrangements for foundation schools provide that an authority might be entitled to a share of any proceeds if assets it transferred to the ownership of the governors or a trust are sold. However, if the authority is not able to influence when a sale might take place, then it does not control this benefit as the result of a past transaction but is dependent on future events.

Expected Flow of Resources

39. The changing nature of schools provision (particularly the number of schools transferring to academy status) makes it increasingly difficult for authorities to be sufficiently certain about future flows of benefits. If the authority is aware that a school is in the process of applying for academy status then it must evaluate whether or not it is probable that the asset will be the asset of the authority within the next accounting period.
40. The expected flow of resources might also be called into question because the school's governing body has the power to decide to change category, eg, from a voluntary controlled school to a foundation school or from a community school to a foundation school. On change of category the asset will normally transfer to the foundation or the governing body. The question that therefore arises at the reporting date is whether the asset recognition criteria are not met for the local authority because governing bodies have the power to change their category of school.
41. The SoPPBE sets out that the rights or other access should be controlled by the entity treating them as an asset. This means that a particular right or other access will only feature in one set of financial statements. Until such time as a decision is made to apply for a change of status, the ability to change status will

¹ The SSFA 1998 permits community and voluntary controlled schools to object to the Schools Adjudicator if they do not agree with the admissions number which has been set for them

not influence the recognition criteria for other entities, as it will not be a past event. Therefore, if an authority relied on this ability of the governors to change the status of a school as the basis for not recognising an asset it otherwise would have recognised, it is likely that no party would recognise the asset. CIPFA/LASAAC is therefore of the view that until a decision has been taken to apply for a change of status, the ability of the governors to make such an application is not relevant in determining whether an asset should be recognised on the authority's balance sheet.

Proposals

42. CIPFA/LASAAC considers that the recognition or otherwise of all maintained schools on local authority balance sheets will require a subjective analysis of the indicators of control of the assets. The factors that CIPFA/LASAAC consider to be relevant to whether or not local authorities control the assets for each category of school have been set out in the Annex to this ITC. CIPFA/LASAAC is seeking views on the factors set out in the Annex. From the analysis in the Annex CIPFA/LASAAC considers that it is likely that for foundation and voluntary aided schools the non-current assets are not assets of the authority. CIPFA/LASAAC considers that in relation to voluntary controlled and community schools the case is less clear. On balance CIPFA/LASAAC would give a preliminary view that voluntary controlled schools appear not to be the assets of the authority (as is indicated in the Annex it would particularly welcome respondents' views on this) whilst community schools appear to be the assets of the authority.
43. Respondents are asked whether they agree with CIPFA/LASAAC's conclusions, and whether the Code should include an interpretation of IAS 16, consistent with these conclusions, to ensure consistency of treatment in local authorities' financial statements. The 2011/12 Code Exposure Draft sets out proposed amendments to the Code to take forward such an interpretation.
44. In addition, as the proposed interpretation set out in the Exposure Draft may require some local authorities to change their accounting policy for one or more of the categories of schools, the 2011/12 Code Exposure Draft confirms that this interpretation would need to be applied retrospectively. Respondents' views are sought on this issue.
45. CIPFA/LASAAC considers that community special and foundation special schools should be recognised in accordance with the treatment of community and foundation maintained (non-special) schools assets. Furthermore, as set out in paragraph 22, school playing field land for some voluntary schools is thought to be owned by the local authority and recognised as local authority assets in local authority balance sheets. CIPFA/LASAAC does not propose to recommend a change to this accounting treatment.
46. The preliminary conclusions set out in this ITC indicate that non-current assets used by voluntary controlled, voluntary aided and foundation schools are not the assets of local authorities. CIPFA/LASAAC cannot make recommendations about whether or not other bodies should recognise these assets in their financial statements. However, it recognises that it is possible that the assets used by voluntary controlled schools might not be recognised in any set of financial statements. CIPFA/LASAAC will ensure a wide circulation of this ITC so that the relevant bodies that can make decisions on this matter and take appropriate action.

Accounting for Non-current School's Assets

- Q1 Do you agree with CIPFA/LASAAC's view that IFRICs 4 and 12 and IAS 17 do not have application in relation to the recognition of non-current schools assets – unless a specific arrangement exists? If not, why not? What, if any alternatives would you suggest?
- Q2 Do you consider that there are any additional factors that should be added to the analysis in the Annex to this consultation? Please give reasons why any additional factors suggested should be added to the Annex and how you consider this would impact on the recognition or otherwise of non-current schools' assets.
- Q3 Do you agree with CIPFA/LASAAC's conclusions regarding the recognition of non-current schools' assets in relation to the different categories of schools? If not, why not? What, if any, alternatives would you suggest?
- Q4 Do you consider that the Code should include an interpretation in relation to the recognition of land and buildings used by schools in relation to the categories of school? If not, why not? What, if any, alternatives would you suggest?
- Q5 Do you consider that the interpretation in relation to the recognition of land and buildings used by schools in relation to the categories of school should be applied retrospectively? If not, why not? What, if any, alternatives would you suggest?