Annual Accounts 2015-16 and FRS102 update

**Purpose**

For Members’ review and approval.

**Summary**

Further to the report to 18 January 2016 Audit Committee and subsequent detailed summary to Audit Committee members, this paper presents the draft revised Accounting Policies for review and approval by the LGA and Company Boards to comply with the new FRS102 reporting standards.

The policies also include a change in Accounting Policy that will be required in order to present a true and fair view in the LGA's consolidated accounts and those of the Improvement and Development Agency to exclude the consolidation of the accounts of the Public Sector Audit Appointments Limited.

In addition as an Appendix to the report are extracts from the accounts of the Improvement and Development Agency showing the impact of the implementation of FRS102 by comparing the restated and original presentation for the financial year 2014/15.

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| **Recommendation**The Board is requested to approve the amended accounting policies for the Improvement and Development Agency.**Action**Strategic Finance Manager to reflect the revised accounting policies in producing the 2015/16 Statutory Accounts.  |

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Annual Accounts 2015-16 and FRS102

**Background**

1. The Financial Reporting Council (FRC) revised financial reporting standards in the United Kingdom and Republic of Ireland. The revisions fundamentally reformed financial reporting, replacing existing standards, one of these new Standards is FRS 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland. The objective of the Standard is to enable users of the accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users’ information needs.
2. Appendix A to this report shows revised Accounting Policies for the Improvement and Development Agency to comply with these new standards. Where there are changes to the existing policies the text has been highlighted.
3. The policies also include the change in Accounting Policy that will be required in order to present a true and fair view in the LGA's consolidated accounts and those of the Improvement and Development Agency. The issue relates to the consolidation of the Public Sector Audit Appointments Limited Company’s (PSAA) accounts into the consolidated accounts, creating a significant increase in income and expenditure of the group, without improving the consolidated accounts financial position.
4. PSAA is a wholly owned subsidiary and in normal circumstances would be consolidated. We have asked for confirmation from our external auditors that subject to the approval of the boards, the above entities do not to consolidate PSAA’s numbers for the following reasons:
	1. The LGA/IDeA do not control the entity - the IDeA appointed the first director, the rest has been down to the company itself, which is fiercely independent of the LGA.
	2. The Group is not able to share in assets or profits of the company, and surplus funds at the end of the arrangement with DCLG must be returned to the clients, as outlined in the memorandum of understanding.
	3. Removal will allow the LGA financial statements to show a true and fair view. Adding an expected £82m to both income and expenditure, relating to PSAA would give the impression that the group is a much larger organisation than it really is.
5. We have received confirmation from PKF Littlejohn our external auditor that the above change is acceptable.
6. The Audit Committee has reviewed and approve the amended policies for onward recommendation to the Leadership Board and the Improvement and Development Agency and Local Government Association Properties Company Boards.

**Recommendation**

* 1. The IDeA Board is requested to approve the amended accounting policies for the Improvement and Development Agency.

APPENDIX A - IDeA ACCOUNTS - ACCOUNTING POLICIES

ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice). The particular accounting policies adopted are described below.

**Accounting convention**

The financial statements are prepared under the historical cost convention.

**Subsidiary Undertaking**

The Company has two subsidiaries, Local Government Information House Ltd and Public Sector Audit Appointments Ltd. Consolidated accounts are not prepared as the Company is itself a subsidiary of the Local Government Association, for which consolidated accounts are prepared. The Company’s place of business is Local Government House, Smith Square, London SW1P 3HZ.

The accounts for Public Sector Audit Appointments Limited (PSAA) are not consolidated into these statements because the IDEA does not exercise or have the ability to exercise control over PSAA and is not in a position to benefit from its results and financial performance.

**Going Concern**

The Company has net liabilities, after accounting for the defined benefit pension scheme deficits, of £75.356 million as at 31 March 2015. This position includes an actuarial estimate of the pension liabilities at the balance sheet date. The Company pays amounts into the schemes, as prescribed by the actuaries (note 14), in order to eliminate this deficit over a maximum of 15 years. The unfunded pension deficits are being repaid over the remaining lives of the pensioners concerned as detailed in note 14.

Under the arrangements agreed with the government following formal consultation, the Company became the sole specified body entitled to receive Revenue Support Grant (RSG) top-slice funding with effect from 1 April 2011.  This funding is received on behalf of the Local Government Association and its related bodies. The level of funding has been formally determined by parliament for the year to 31 March 2016. Funding for the Company’s principal grant-funded programmes has also been agreed by the funders. This secures the majority of the Company’s income for the foreseeable future and the Directors have therefore adopted the going concern basis for the preparation of these accounts.

**Investments**

Investments are recognised at the lower of cost and net realisable value.

**Income**

Income represents the amount receivable as grants, subscriptions and for goods sold and services provided (excluding Value Added Tax). Income from dividends due from Joint Ventures is identified separately within the Income and Expenditure account. Note 2 gives further analysis of income which is all generated in the UK.

**Debtors**

The policy of the Company is to make partial provision for debts that are over one year old and full provision for debts that are over two years old, subject to exceptions for debt due from related entities, where the policy is not to make provision. Old debt is periodically reviewed for write-off.

**Government Grants**

Grants are recognised in the Income and Expenditure account when the conditions for receipt have been complied with. Deferred grant income at the year end is included in creditors. The Company receives Revenue Support Grant which is recognised in the Income and Expenditure account on receipt and Specific Grant which is recognised in the accounts in the period the related activities occur.

**Pension costs**

New employees are entitled to membership of the London Borough of Camden Council defined benefit pension scheme. Under the defined benefit plan, pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Any increase in the present value of liabilities within the defined benefit pension schemes expected to arise from employee service in the period are charged to the income and expenditure account.

The expected return on the schemes’ assets and the increase during the period in the present value of the schemes’ liabilities arising from the passage of time and actuarial gains and losses are recognised in the statement of other comprehensive income as remeasurement of defined benefits pension scheme obligations. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments (included in staff costs). Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs.

**Reserves**

The Contingency Reserve is created to provide cash resources to fund developments that provide opportunities to save costs or generate additional commercial income, fund external loan repayments, and also to cover the potential risks to the IDEA medium term plan (such as increased pension deficit payments). Contributions to or from this reserve will be identified set so that the IDEA budget for each year of the plan is balanced.

**Company Status**

The Company is limited by guarantee and has no share capital. In the event of a winding up of the Company, each director’s contribution towards the liabilities is limited to £1.

**NEW FINAL NOTE TO THE ACCOUNTS**

**Transition to FRS102**

This is the first year that the company has presented its results under FRS 102. The last financial statements under the UK GAAP were for the year ended 31 March 2015. Set out below are the adjustments which reconcile the total equity as at 1 April 2014 and 31 March 2015 as a result of the changes to accounting policies between UK GAAP as previously reported and FRS 102.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ACCUMULATED FUNDS** |  | 1 April 2014£000 |  | 31 March 2015£000 |
|  |  |  |  |  |
| **UK GAAP – As previously reported** |  | (48,964) |  | (62,064) |
| Holiday Pay Accrual |  | (211) |  | (211) |
|  |  |  |  |  |
| **FRS 102** |  | (49,175) |  | (62,275) |

Notes:

FRS 102 requires short term employee benefits to be charged to the profit and loss account, for the period the employee service is received. This has resulted in the IDEA recognising a liability for holiday pay of £211,000 on transition to FRS 102. Previously holiday pay accruals were not recognised and were charged to the profit and loss account as they were paid. For the transition to 31 March 2015 it has been assumed, that liability at the 1 April 2014 was the same as at 31 March 2015, with the £211,000 liability charged to the General Reserves at the start of the accounting period.

Shown below are comparative extracts from the 2014/15 Accounts with the restated figures:



NB The 3 pension adjustments shown under other comprehensive income will be combined into a single “Remeasurement of net defined benefit obligation” disclosure in the new FRS102 accounts presentation.

