

**Report to:** Corporate Issues Scrutiny Committee

**Date:** 24<sup>th</sup> August, 2009

**Report of:** Director of Corporate Resources

**Report No:**

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**Report Title:** **Accountancy Issues: Background**

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**Confidential /  
Non Confidential:**

(**Non-Confidential**) This report does **not** contain information which warrants its consideration in the absence of the press or members of the public

**Purpose:**

This report has been prepared in response to the Committee's request for background information on accountancy issues at its meeting on June 15<sup>th</sup>.  
When considering its 2009/10 work programme.

The topics identified were:

- International Accounting Standards
- Cost Centred Accounting
- Trading accounts operated by the Council.

**Recommendations:**

Committee are asked to note the content of the report and identify any issues arising from the information supplied.

**Decision:**

**Background  
Doc(s):**

CIPFA: Accounting Code of Practice Statement of Recommended Accounting Practice Guidance Notes 2008/09

CIPFA: Best Value Accounting Code of Practice 2008

## **1. Introduction**

At its meeting on June 15<sup>th</sup> the Committee asked for background information and position statement on International Accounting Standards, Cost Centred Accounting and what trading accounts the Council operates.

This report provides background information on each area and a position statement outlining the Council's current approach.

## **2. International Accounting Standards**

### **2.1 Background**

Bolton Council along with the rest of local government is required to adopt International Accounting standards from 1st April 2010 i.e. for the Financial Year 2010/11. Comparative information will be required for 2009/10.

Although the government has made the decision that the change will be made, detailed accounting requirements have not yet been finalised. Whilst requirements are indicated by the International Financial Reporting Standards (IFRS) themselves, they are expressed as general principles and not framed to take in to account financial structures within the public sector. Other parts of the UK public sector (e.g. Health, Government Departments) are required to adopt international standards from 2009/10 thus there is some public sector guidance available although it is not specific to local government.

Private Sector experience has been that financial statements have become longer, taken more resources to prepare and been harder for the non-specialist to understand.

### **2.2 Differences arising on adoption of International Standards**

Local authority accounting standards already incorporate fair value principles, which underlie international standards, in dealing with Financial Instruments (borrowing and lending agreements) and the 2009/10 local authority standard will incorporate the requirements of international standards as regards PFI schemes.

The other areas of difference are:

- Presentational (changes of layout, terminology, disclosures)
- New Accounting Policy (needs to be written / explained)
- Cash Flow (based on cash equivalents)
- Segmental Reporting (need to supply analysis by decision taking area – Portfolio as well as Government Service Expenditure Analysis)
- Fixed Asset (Definition- PFIs brought on Balance Sheet, Classification and Valuation changes, Component accounting.)
- Leases and lease like arrangements (new test for finance lease i.e. assets to be brought on balance sheet)
- Employee Benefits (account for them in the year they are earned e.g. leave /flexitime).
- Stocks / Inventory – Prescription in basis of valuation

## 2.3 Position Statement

Five members of staff have attended external training events provided by a range of providers to familiarise themselves with the principles of International Accounting Standards and the current status of advice. All Policy Accountants have subsequently been briefed

An outline project plan incorporating check lists has been prepared to identify the tasks involved in conversion and Estates colleagues have been advised of the impending development although the detailed requirements in respect of valuation work are not yet known.

External consultancy support has been secured from KPMG on the basis the Council would develop a detailed work plan and working papers over the summer. In addition the staffing requirements of the exercise would be evaluated. These assessments would be subject to discussion with and review by KPMG in October. At that point the degree of external support required would be evaluated.

As comparative information on an International Accounting Standards basis is required for 2009/10 it is necessary to capture data as at 1<sup>st</sup> April 2009. This is being done via Policy Accountants for employee benefits. The other major area is fixed asset valuation. Guidance is still developing as regards the valuation of fixed assets so no detailed work has been commissioned at this time although asset records at that data exist. The same is true of leasing records. Although Bolton at Home Ltd's accounts themselves will not need to be produced on an IFRS basis the company will need to produce equivalent information so that it can be incorporated in to Council's Group Accounts.

## 3. **Cost Centred Accounting**

### 31 Background

In commercial manufacturing or service organisations the phrase "Cost Centres" is used to describe divisions that add to the cost of the organization, but only indirectly add to profit. Typical examples include Research and Development, Marketing and Customer service. In local government and in the Oracle Financials system Cost Centre refers to a subdivision of service at which costs are managed. A manager may be responsible for a range of cost centres (e.g. libraries) which may be aggregated for reporting purposes. Similarly one entity (e.g. a school) may be sub-divided in to a number of cost centres for management purposes.

### 3.2 Current Position

The Council's budget is constructed by cost centre and all expenditure must be allocated to a cost centre in order to be processed. Thus the key consideration for the Council is that all cost centres are assigned to a manager who takes responsibility for the budget and transactions thereon. This is a fundamental element of financial control and is tested annually by Internal Audit. Whilst this process applies to revenue expenditure the equivalent requirement for capital expenditure is that each project has a named "owner".

## **4. Trading Accounts**

### 4.1 Background

Trading Accounts measure the surplus or deficit on an activity after meeting all costs including a fair share of overheads and depreciation of assets used. Proper accounting practice does not permit a charge for notional interest on assets employed but Councils may budget to achieve a surplus to compensate for such costs.

Up to the 1980s local authorities accounted for "markets" on a trading account basis but few other activities. Legislation of the 1980s (notably compulsory competitive tendering -CCT) extended the use of trading accounts. The legislation repealing CCT provided for services to be removed from a trading account basis when alternative best value arrangements were made.

Current Best Value Accounting Code of practice guidance states there is an expectation on authorities that they will maintain trading accounts for all material activities carried out in a competitive environment. These could involve:

- (a) Trading services or undertakings with the public or with other third parties.
- (b) External Trading organisations which have won contracts from other public bodies, for example under the Local Authorities (Goods & Services) Act 1970.
- (c) Continuing CCT arrangements. These are contracts for work previously won by DSOs, to which CCT no longer applies, but which are still being performed within the original specifications and period.
- (d) Work carried out by internal trading organisations arising from voluntary competitive tendering exercises.
- (e) Support services provided in a free internal market, i.e. from schools or from other budget holders who have been given freedom to buy externally if they wish.
- (f) Support services provided in a limited internal market, e.g. where budget holders are free to decide the quantity and type of the work to be done on the basis of the prices quoted to them, but not to buy externally.

Trading Accounts have the benefit that they measure the financial performance in an easily understood way. They make explicit that where an authority is trading and taking commercial risks it is not exposing itself unreasonably to loss. For example, it is not expected that an authority will invest in plant, labour, stocks, etc. for trading activity without there being a strong probability that it will be able to generate income to cover this investment.

Adopting a trading account approach for internal activities does have additional costs by duplicating client and contractor functions with additional invoicing and approval mechanisms. Many activities where the Council appears to be in a trading relationship with the public have wider service delivery objectives (e.g. Heaton Fold and Bolmoor are primarily Adult Training facilities, Industrial Units serve economic development objectives) .

## 4.2 Current Position

The following activities are currently reported on a Trading Account basis: (2008/09 position indicated)

- Markets (£1.7m turnover, loss of £0.2m carried forward)
- Building Control (£0.6m turnover, small surplus carried forward as per legal requirement, cumulative surpluses can be used after 3 years)
- Special Needs Transport (£4.4m turnover, small surplus taken to Environmental Services Revenue)
- Security and Response (£1.9m turnover, small deficit taken to Environmental Services Revenue)
- Schools & Welfare Catering (£7.0m turnover, £0.2m deficit taken to Environmental Services Revenue)
- Fleet Management (£9.3m turnover, £1m surplus used to finance vehicle acquisition)
- Building Cleaning (£3.9m turnover, small surplus taken to Environmental Services Revenue)
- Legal Services (£1.8m turnover, small deficit taken to Central Services Reserves)

The following additional areas have some of the attributes of trading activities but are currently managed as cost centres with budget provisions. The former CCT areas noted have been subject to best value reviews which have resulted in them being placed on an alternative footing.

### External

- The Albert Halls (£2.6m turnover)
- Civic Catering (£1.3m turnover)
- Crematorium (£1.5m turnover)
- Industrial Estates (£0.4m turnover)
- Investment Properties (£12.3m turnover)

### Internal

- Administrative and Specialist Education Support Services (£2.8m turnover, of which £1.7m bought by Schools from delegated budgets)
- Highways Maintenance (former CCT area, £2.6m turnover)
- Social Services Residential Homes (£7.8m turnover)
- Social Services Home Care Services (£6.5m turnover)
- Environmental cleaning and sweeping (former CCT area, £3.9m turnover)
- Construction and Property Services excluding Housing (£12.7m turnover)
- Grounds Maintenance – Greenspace, Grounds and Streets (former CCT area, £8.5m turnover )
- Refuse Collection (former CCT area, £2.4m turnover)
- Central Office Services (printing and reprographics, text processing £1.1m turnover)
- Financial Services (£6.6m turnover)
- Personnel Services (£4.5m turnover)

Areas which have been externalised subject to long term contracts are: Information Technology, On Street Parking, Housing Management and Maintenance and Leisure Management

## **5. Conclusions**

Adoption of International Accounting Standards will be a major focus of accountancy effort over the next two years. Cost Centre Accounting and Trading Accounts are established techniques, any changes on the basis of individual activities are managed would be of more significance to the management of the service and their administrative support staff than the accountancy function.

## **6. Recommendations**

Committee are asked to note the content of the report and identify any issues arising from the information supplied.