

**Paper for: The Finance and Audit Committee**

**Title: Accounts Presentation and Income Recognition Policy**

**Date: 9<sup>th</sup> September 2020**

**Strategic Purpose: Improving Transparency of the LEP's Finances and ensuring income recognition compliance with Financial Reporting Standard 102**

**Resource Implications:**

**F&A Committee: To approve the presentational approach and approve the income recognition policy**

**1. Background**

- 1.1. Following the preparation of the Annual Accounts for the year ending 31<sup>st</sup> March 2020, the external auditor raised, as part of the management discussion, two matters for consideration by management. Both matters have arisen with the growth and increasing complexity of LEP operations.
- 1.2. On the recommendation of the external auditor, management has considered an alternative presentation of the accounts and formalising the approach to income recognition with due consideration to the accounting standards set out in FRS102.

**2. Accounts Presentation**

- 2.1. A revised format for the accounts presentation is appended at Appendix A.
- 2.2. The presentation seeks to bring together financial information pertaining to both the LEP operating company and the balances held, by CEC the accountable body, to give a "enterprise" view of the total resources at the LEP's disposal.
- 2.3. On the basis that this presentation is for future LEP accounts, Marketing Cheshire is excluded from the consolidation, because it is a non-consolidated entity. Income Received from, or money spent by the LEP with, Marketing Cheshire is included in the figures.
- 2.4. The presentation is mindful that the LEP company operates, to all intents and purposes, like a not for profit organisation and, as such, adopts an approach to demonstrate the origin of resources received and the activities on which they are utilised.
- 2.5. Readers should also be mindful that the LEP company accounts are prepared on an accruals basis, following financial reporting standards whereas the figures for investment funds are purely based on the cash position and movements.

**3. Income Recognition Policy**

- 3.1. The draft policy is appended at Appendix B

**4. Recommendation**

- 4.1. That the committee approves the revised presentational format
- 4.2. That the committee approves the income recognition policy

**Ian Brooks**

**Finance and Commercial Director**

**September 2020**

Appendix A

Proposed Accounts Presentation

<b>SUMMARY OF 2019-20 FUNDING</b>					
<b>£'000</b>	<b>LEP ORGANISATION</b>		<b>INVESTMENT FUNDS</b>		
	Core Activity	Delivery Programmes	Local Growth	Growing Places	Retained Business Rates
<b>Opening Balance</b>			<b>22,864</b>	<b>10,381</b>	<b>1,209</b>
Resources Receivable:					
Central Government	516	597	8,235		
Central Government NP11		602			
Local Authorities incl. Business Rates	797	240			919
Investment Loans Repaid				595	
LEP Borrowing				(7,694)	7,694
Other	350	195			
Resources Expended:					
Infrastructure Projects		(240)	(26,963)		(7,694)
Skills & Education		(416)	(137)		
Business Growth & Support		(377)			
Northern Powerhouse 11		(598)			
Strategy, Planning and Operations	(1,640)				(1,332)
<b>Closing Balance</b>	<b>23</b>	<b>3</b>	<b>3,999</b>	<b>3,282</b>	<b>796</b>

## Appendix B

### Cheshire and Warrington LEP

#### Income Recognition Policy

##### Background

CWLEP receives income resources under a variety of different types of contractual agreements and arrangements including, but not exhaustively:

- General Grant from Government
- Government Grant for specific purposes
- Management fees charged to administer investment programmes
- Subscriptions from Local Authorities
- Supplementary Grants derived from interest earned on balances by the Accountable Body
- Drawdown of retained business rates
- Retrospective reimbursement of expenditures incurred by the CWLEP as a delivery partner and claimed from programme and project leads
- Management Fees

In preparing its' statutory accounts, CWLEP follows the standards and requirements laid out by FRS102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland). FRS102 sets out in two paragraphs approaches to income recognition that apply to the majority of the circumstances in which income is received. They are:

- "23.15 When services are performed by an indeterminate number of acts over a specified period of time, an entity recognises revenue on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other act, the entity postpones recognition of revenue until the significant act is executed.
- 23.16 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, an entity shall recognise revenue only to the extent of the expenses recognised that it is probable will be recovered."

##### CWLEP Policy

This policy sets out how CWLEP will recognise income in its accounts to meet the requirements of FRS102.

1. When a General Grant, Local Authority Subscription, Supplementary Grant is received without specific stipulations as to how that grant shall be spent, income shall be recognised in the period for which it is provided and on a straight line basis over the period.
2. When a Grant is provided for a specific purpose, e.g. Strategy Development, Improving Governance, these are considered significant and specific acts, and the income shall be recognised when the act is executed, such execution deemed by the defrayal of costs, which may be staff or with third parties, in relation to completing the act.

3. Supplementary Grants, without specific stipulation on use, will be recognised as income when they are available to the CWLEP whether, or not, drawn down from the Accountable Body.
4. Income received from the drawdown of retained business rates used, in effect, as Local Authority subscriptions shall be recognised on a straight-line basis. The same approach shall apply to income drawn to fund the general operations of the EZ programme.
5. Income drawn down from retained business rates to fund specific project expenditure shall be recognised against the specific defrayed expenditure of the projects.
6. Income derived from the reimbursement of claims shall be recognised against the specific defrayed expenditure of the projects and reduced when it is probable that a lower income will be recovered.
7. Income from Management Fees shall be recorded in the period when they are charged.