

REPORT TO: Business Efficiency Board

DATE: 26 May 2010

REPORTING OFFICER: Operational Director – Finance

SUBJECT: Progress with the Implementation of International Financial Reporting Standards (IFRS)

WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 To provide the Board with an update of progress with the implementation of International Financial Reporting Standards (IFRS).

2.0 RECOMMENDED: That the report be noted.

3.0 BACKGROUND

3.1 The Council will be required to prepare its Statement of Accounts (The Abstract) for the year ended 31 March 2011, on the basis of International Financial Reporting Standards (IFRS) in compliance with the IFRS Accounting Code of Practice (IFRS Code).

3.2 In order to prepare the 2010/11 year-end accounts on this basis, it is necessary to restate the 2009/10 accounts in order to provide comparative figures and also to restate the 2008/09 balance sheet to provide the opening balances.

3.3 It will also be necessary to ensure that a number of the Council's systems are able to provide adequate financial and non-financial information to meet the requirements of IFRS.

3.4 The implications of compliance with IFRS are wide-ranging, both financial and non-financial, and will affect all areas of the Council. An IFRS specialist was commissioned to undertake a baseline review of the Council's current practices and to compare these with the requirements of IFRS, which is now being used as the basis for the implementation project.

4.0 PROGRESS WITH KEY AREAS OF IFRS WORK

4.1 A number of strands of IFRS work are currently underway, the key areas of which are presented below along with details of progress.

Preparation of 2009/10 Accounts

- 4.2 The year-end accounts for 2009/10 are currently being prepared on the basis of UK Generally Accepted Accounting Principles (UKGAAP) and in accordance with the Statement of Recommended Practice (SORP). This will be the final year that they will be prepared on this basis as the 2010/11 accounts will be prepared on an IFRS basis.
- 4.3 The SORP this year includes certain requirements which have been introduced as preparation for full compliance with IFRS next year-end. These also build upon changes introduced last year, such as compliance with new accounting standards in respect of financial instruments. The draft Abstract of Accounts prepared on this basis will be presented to the Board on 30th June 2010.

Restatement of the 2009/10 Accounts

- 4.4 Once the 2009/10 Abstract of Accounts has been prepared, the accounts will then be restated onto an IFRS basis. In order to achieve this it will be necessary to restate the 2009/10 opening balances (ie. the closing balances from 2008/09) and the closing balances from 2009/10, onto an IFRS basis. This must be done in order to provide the starting point for preparation of the 2010/11 year-end accounts, which will be on a full IFRS basis.
- 4.5 It is intended to restate the 2009/10 accounts by 31st October 2010. In order to undertake the restatement a number of key areas of IFRS must first be completed, including reviewing the accounting treatment of leases, employee benefits and group accounts.

Accounting Treatment of Leases

- 4.6 The most significant challenge to the Council from the implementation of IFRS is in respect of identifying and reviewing the accounting treatment of leases or similar contract arrangements. Work is currently on-going to establish a complete and accurate register of all leases and similar contracts, including those relating to schools. This is necessary to enable the agreements to be reviewed as the definitions of finance and operating leases have been amended under IFRS, which may have an impact in terms of their accounting treatment. This includes where the Council is both lessee and lessor.
- 4.7 In terms of property related leases, approximately 550 leases have been identified. Of these around 100 are currently being reviewed in terms of their categorisation and accounting treatment, whilst the remainder can be clearly categorised and will not require any accounting adjustments.
- 4.8 Work is currently underway with the assistance of all Directorates to identify all other leases such as those in respect of; office equipment;

vehicles, plant and equipment, catering equipment; printing equipment; and ICT equipment.

- 4.9 Discussions are to be held with a sample of schools during the Summer term regarding the types of lease and similar contract arrangements which they may hold. Thereafter, all schools will be asked to provide information in respect of their arrangements, using examples identified from the sample exercise.
- 4.10 As the inventory of lease and similar contract arrangements is established, each arrangement will be reviewed to establish whether they are deemed finance or operating leases in accordance with the IFRS Code of Practice. The results will be discussed with the Audit Commission in order to agree a shared understanding.
- 4.11 A key feature of the IFRS requirements in respect of lease and similar contract arrangements is in terms of where the arrangements were previously deemed operating leases and are now deemed finance leases. In these instances the accounting arrangements will need to be changed “retrospectively” to the commencement of the lease, as part of the restatement of the 2009/10 accounts.

Employee Benefits

- 4.12 The IFRS Code of Practice requires that the total amount of annual leave and flexible working hours carried forward by staff, including teachers, at 31st March each year is identified, costed and a provision made in the accounts. This is intended to reflect the total cost of the time owed by the Council to the individuals.
- 4.13 All managers across the Council are currently providing details of the annual leave carried forward by their staff at 31st March 2009 and 2010, in order to provide the comparative figures required for restatement of the 2009/10 accounts. Details of flexible working hour balances as at 31st March in each year have been identified from the corporate time recording system.
- 4.14 As part of the discussions to be held with schools referred to in paragraph 4.9 above regarding leases, they will also be asked to provide annual leave information in respect of their non-teaching staff.
- 4.15 Information in respect of all teaching staff has been provided by Human Resources, which will enable a desktop calculation of annual leave carry forward to be undertaken, based on standard term-times.
- 4.16 This information regarding employee benefits will then be costed and the necessary provision made within the restated 2009/10 accounts.

Group Accounts

- 4.17 The Council's Group Accounts include the consolidation of the accounts of Halton Transport Limited, whose accounts are not required to be prepared on an IFRS basis. Discussions have therefore been held with their accountants, to enable information to be provided on an IFRS basis as part of the restatement of the Council's 09/10 Group Accounts.

Asset Valuation

- 4.18 The bases used for valuation of Property, Plant and Equipment will change significantly under the IFRS Code of Practice. From 2010/11 onwards any property revaluations will require separate valuations for major "components" which may have a significantly different lifespan eg. lifts, roofs, windows, walls, boilers. The reason for this is in order to depreciate the asset components over those differing life spans. There is however, no requirement to make any retrospective accounting adjustments in respect of asset valuations.
- 4.19 During 2009/10 Property Services have already begun to identify and undertake valuations on a component basis in anticipation of the forthcoming IFRS requirements, as part of the normal five year rolling revaluation process (whereby one fifth of the Council's assets are revalued each year).

Private Finance Initiative (PFI) Schemes and Service Concessions

- 4.20 The accounting treatment of Private Finance Initiative (PFI) schemes will change significantly with the introduction of IFRS. PFI schemes which had previously been treated as "off balance sheet" will now be included within the Council's balance sheet. The Council does not currently operate any PFI schemes, however, it will enter into PFI arrangements in future through Building Schools for the Future and Mersey Gateway. Therefore the IFRS requirements for those schemes is being considered as part of those projects.
- 4.21 The IFRS Code of Practice does however require similar accounting treatment to be made for contractual agreements which are termed Service Concessions, which are similar in nature to PFI arrangements. Work is currently underway to identify whether the Council has any agreements which would fall within the definition of Service Concessions and if so the accounting treatment will then be reviewed.

Disclosure Notes

- 4.22 There are far greater volumes of financial and non-financial disclosure notes required under IFRS. Consideration is currently being given to what additional information will need to be captured and whether the Council's existing systems are capable of providing this during 2010/11. In addition any requirements for previous comparative year information are also being considered.

5.0 MONITORING AND REPORTING

- 5.1 The amount of work required over the coming year to ensure IFRS compliance will be very significant and will impact upon workloads across the Council. A cross-Directorate IFRS Working Group is overseeing the transition to IFRS and will continue to take forward the key actions required to ensure full compliance with the IFRS Code of Practice.
- 5.2 Regular progress meetings will continue to be held with the Audit Commission, particularly around the restatement of the 2009/10 accounts and to agree a shared understanding of approach in particular areas.
- 5.3 A further progress report regarding the implementation of IFRS will be presented to the Board on 10th November 2010.

6.0 POLICY AND OTHER IMPLICATIONS

- 6.1 None.

7.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

- 7.1 There are no direct implications.

8.0 RISK ANALYSIS

- 8.1 If the transitional requirements for the implementation of the IFRS regime are not met, the Council will fail to meet its statutory obligations in terms of the accounting requirements for the 2010/11 final accounts. As a result this would directly impact upon the Council's Use of Resources score and thereby the Comprehensive Area Assessment.
- 8.2 The significant increases in workload anticipated over the transitional period may require additional resources to complete the transition, whilst ensuring the Council's other activities are properly supported.

9.0 EQUALITY AND DIVERSITY ISSUES

- 9.1 None.

10.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1072

- 10.1 There are no background papers under the meaning of the Act.