

**REPORT TO:** Business Efficiency Board

**DATE:** 10 November 2010

**REPORTING OFFICER:** Operational Director – Financial Services

**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 The implications of compliance with IFRS are wide-ranging, both financial and non-financial, and affect all areas of the Council. It is also necessary to ensure that the Council's systems are able to provide appropriate information in future to meet the requirements of IFRS.

## **4.0 PROGRESS WITH KEY AREAS OF IFRS WORK**

4.1 A number of strands of IFRS work are currently underway, for which progress in the key areas is presented below. Whilst work is not as advanced as originally planned, due to the changes arising from the Efficiency Review and the need to prioritise preparation of the 2009/10 accounts, significant progress has been made in recent months and the project is still on track for full IFRS compliance by 2010/11 year-end.

### **Restatement of the 2009/10 Accounts**

4.2 Having completed the 2009/10 Abstract of Accounts attention has now been turned to restating them onto an IFRS basis. In order to achieve this it is 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.

- 4.3 It is intended to restate the 2009/10 accounts by 30<sup>th</sup> November 2010, following which they will be agreed with the Audit Commission. In order to undertake the restatement a number of the key areas of IFRS must be addressed as detailed below.

#### **Accounting Treatment of Leases**

- 4.4 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 has been on-going to establish a complete and accurate register of all leases and similar contracts, including those relating to schools. This will enable the agreements to be reviewed as the definitions of finance and operating leases have been amended under IFRS, which will have an impact in terms of their accounting treatment. This includes where the Council is both lessee and lessor.
- 4.5 In terms of property related leases, approximately 550 leases have been identified and assessed in terms of the IFRS definitions of operating and finance leases. Only one lease has changed from an operating lease to a finance lease and will therefore require changes to its accounting treatment.
- 4.6 All other leases such as those in respect of; office equipment; vehicles, plant and equipment, catering equipment; printing equipment; and ICT equipment are currently being identified with the assistance of all Directorates and Schools. The volume of such leases is relatively small and those considered so far have not changed in terms of their status.
- 4.7 As the inventory of lease and similar contract arrangements is being established and the agreements reviewed, the results are being discussed with the Audit Commission in order to agree a shared understanding.

#### **Asset Valuation**

- 4.8 The bases used for valuation of Property, Plant and Equipment will change significantly under the IFRS Code. 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. This is in order to depreciate the asset components over those differing life spans.
- 4.9 Property Services have begun to identify and undertake valuations on a component basis in anticipation of the IFRS requirements, as part of the normal five year rolling revaluation process. The basis for identifying and valuing components is currently being discussed with the Audit Commission.
- 4.10 In terms of the 2009/10 Restatement of Accounts it has been necessary to re-categorise each asset in terms of the IFRS Code's definitions, as these affect the accounting treatment of each asset. In particular, the IFRS Code has introduced new definitions of Assets Held for Sale and Investment Assets. Property Services have undertaken the re-categorisation exercise, the details of which will be discussed with the Audit Commission and will then be agreed with the Asset Management Working Group.

### **Employee Benefits**

- 4.11 The IFRS Code requires that the total amount of annual leave and flexible working hours carried forward by staff, including teachers, at 31<sup>st</sup> 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.
- 4.12 Given the volume of data involved, a sampling exercise has been undertaken to identify the level of annual leave and flexible working hours carried forward. Similar information is also being obtained from a sample of Schools in respect of annual leave carried forward by non-teaching staff. The details of the approach adopted for this exercise are being discussed with the Audit Commission. The results of the sampling exercise will then be extrapolated in order to provide an estimated total value across the Council.
- 4.13 Information in respect of all teaching staff has been provided by Human Resources, from which a desktop calculation of annual leave carry forward is being undertaken based on standard term-times.
- 4.14 The resulting information regarding employee benefits will then be costed and the necessary provision made within the restated 2009/10 accounts.

### **Group Accounts**

- 4.15 The Council's Group Accounts include the consolidation of the accounts for Halton Transport Limited whose accounts are not required to be prepared on an IFRS basis. Discussions are being held with KPMG who prepare the company's accounts, to obtain the information required on an IFRS basis for the restatement of the 2009/10 accounts.

### **Private Finance Initiative (PFI) Schemes and Service Concessions**

- 4.16 The accounting treatment of Private Finance Initiative (PFI) schemes will change significantly with the introduction of IFRS. The Council does not currently operate any PFI schemes, however, it will enter into PFI arrangements in future in respect of the capital schemes at Wade Deacon High School and The Grange Schools, as well as the Mersey Gateway. The IFRS requirements for these schemes are being considered as part of those projects.
- 4.17 The IFRS Code also requires a change in accounting treatment for contractual agreements termed Service Concessions, which are similar in nature to PFI arrangements. A number of potential arrangements were considered when preparing the 2009/10 Abstract of Accounts, however, none were found to meet the Service Concession definition. Arrangements are being put in place to ensure that any potential Service Concession arrangements which arise in future are identified for consideration in terms of the IFRS Code.

## **5.0 MONITORING AND REPORTING**

- 5.1 A cross-Directorate IFRS Steering Group is overseeing the transition to IFRS and will continue to monitor and take forward key actions required to ensure full compliance with the IFRS Code by 2010/11 year-end.

- 5.2 A detailed IFRS Project Implementation Plan is being maintained which covers all aspects of the transition to full IFRS compliance, including identification and responsibility for specific tasks, risk assessment and deadlines.
- 5.3 Regular progress meetings are being 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.
- 5.4 A further progress report regarding the implementation of IFRS will be presented to the Board on 19th January 2011.

## **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.
- 8.2 The IFRS Project Implementation Plan has been risk assessed in terms of the key actions, to ensure they are prioritised and properly resourced during the implementation process.
- 8.3 Increased workloads during the IFRS implementation period may require some re-prioritisation of 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.