

Subject: Progress Report on the Implementation of International Financial Reporting Standards (IFRS)

Status: For Publication

Report to: Audit and Accounts Committee

Date: 30th November 2010

Report of: Finance Manager

Portfolio

Holder: Finance and Resources

Key Decision: Yes / No

Forward Plan General Exception Special Urgency

1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to update Members on the progress made to date and the future plans in the implementation of the International Financial Reporting Standards (IFRS) ahead of the closure of the 2010/11 accounts.
- 1.2 The Council has a statutory duty to submit the 2010/11 under the IFRS rules, as interpreted by the Code of Practice on local authority accounting in the United Kingdom 2010/11 (the Code).

2. CORPORATE PRIORITIES

- 2.1 The matters discussed in this report impact directly on the following corporate priorities and associated corporate objective.
- *Delivering Value for Money Services*
Rigorous planning and early agreement of the transition actions and re-worked Statement of Accounts will enable a more efficient closure of the 2010/11 accounts to meet the draft approval deadline of June 2011 by the Audit and Accounts Committee.

3. RISK ASSESSMENT IMPLICATIONS

- 3.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:
- *Level of General Fund Reserves:* Though the implementation of IFRS does not affect the cash position of the Council, the requirement to

accrue for the value of annual leave not taken at the year-end will have an effect on the level of General Fund reserves.

4. BACKGROUND AND OPTIONS

4.1 The implementation of IFRS requires the re-statement of the opening balances for 2009/10, activity within the 2009/10 year and the closing position at 31st March 2010. Therefore, all the original data quoted within this report can be drawn from the Statement of Accounts 2009/10, which is freely available on the Council's website.

4.2 Local authority staff across the country have been preparing for this implementation for the past two years, building now to a crescendo of activity ahead of the closure of the 2010/11 accounts. This report follows up on the progress report made to this Committee in December 2009.

4.3 Activity to implement IFRS has fallen into the following categories

- Preparation
 - Training and Research for Finance and Property Services staff.
 - Creation of a project plan and implementation team, followed by dissemination of this plan to Members (see Appendix 1).
 - Implementing new procedures/systems to provide the data required under IFRS well in advance of the beginning of 2010/11.
- Calculation of Impact
 - Updating Accounting Policies to match those required under IFRS.
 - Calculating the impacts of those policy changes on the main financial statements including implementing changes to property valuations.
 - Calculating the net impact on the Council's financial position.
- Re-drafting the main financial statements under IFRS, with working papers to explain the changes to auditors.
- Re-drafting the Statement of Accounts document to incorporate the new statements and creating the new notes now required under IFRS.
- Audit Commission consultation/agreement of the conversion process and re-drafted Statement of Accounts.
- Training for Members on what the changes will mean when the 2010/11 Statement of Accounts is presented in June 2011.

4.4 Preparation

4.4.1 Training

4.4.1.1 Preparation for the implementation of IFRS has included both formal and informal training for the Finance Manager and the Property Manager, along with dissemination of information to wider team members across departments of the Council.

4.4.1.2 Staff have attended formal training courses by CIPFA and RICS and have taken an active role in regular discussions among peer groups across Lancashire and the North West over the past two years.

4.4.2 Planning

- 4.4.2.1 The project plan for implementation was first presented to the Audit and Accounts Committee in December 2009 and an update is attached at Appendix 1 to this report.
- 4.4.2.2 The original plan followed recommendations from CIPFA which looked to convert the Balance Sheet and have this approved by the Audit Commission prior to the closure of the 2009/10 accounts. There was insufficient guidance to complete the work at that point, but officers did obtain positive feedback from the Audit Commission on the progress made and the approach being taken.

4.4.3 Procedures & systems

- 4.4.3.1 In 2007 the Council began to implement a computerised asset management system, produced by CIPFA's business section. This has significantly contributed to the Council's ability to implement the required changes to the categorisation of the fixed assets. Many councils across the country have purchased similar systems during the last two years.
- 4.4.3.2 In March 2010 the Council's system was used to full effect in providing the calculations for asset values in the Balance Sheet and the depreciation and impairment figures for the 2009/10 accounts.
- 4.4.3.3 The other area where procedures have been introduced to provide the data required under IFRS is for employee benefits. Under IFRS the value of leave carried forward each year must be accrued into the accounts. In order to calculate this value every officer's leave card has been collected centrally by the People & Policy Team in April 2009 and April 2010.

4.5 **Calculation of Impact**

4.5.1 Updating Accounting Policies

- 4.5.1.1 There are many International Accounting Standards (IASs) applicable under IFRS which will now change the Council's accounting policies and the Statement of Accounts. Those listed below are the ones which have a significant effect on the Council's accounts.
- 4.5.1.2 Government Grants and Contributions (IAS20) now instructs the authority to show grants received within the Comprehensive Income and Expenditure Statement and transfer either to Capital Grants Receipts in Advance, where conditions for grant entitlement have not yet been met, or to the Capital Adjustment Account if all conditions have been met.
- What it means for Rossendale - grants received in the past to support capital projects, such as the Futures Park Business Centre, previously shown as Government Grants Deferred, should now be transferred to the Capital Adjustment Account in the balances brought forward at 1st April 2009 as if this policy has always been in place.
 - Effect on the Accounts - £3,420k of grant previously written out to the 2009/10 Comprehensive I&E as 'income' will now be removed, along with the reversing transaction in the old Statement of Movement on General Fund Balance (now in the Movement in Reserves). In addition the balance of Government Grants Deferred at 31st March 2009 and 31st March 2010 are now completely transferred into the Capital Adjustment Account.

4.5.1.3 Employee Benefits (IAS19) now instructs authorities to accrue for the value of leave entitlement carried forward by employees at the end of each year. In the past this value has been accepted as a comparatively static figure and so calculations have not been made and accrued for. Strictly speaking this goes against the '*pervasive accounting concept*' of accruals laid down in the Council's accounting policies.

- What it means for Rossendale – the opening balance at 1st April 2009 must be restated as if the 2008/09 accounts accrued for this amount owing to employees. The cost of the 2009/10 carry forward would then require an adjustment through the Consolidated I&E to either increase or decrease this liability and correspondingly decrease or increase the General Fund Reserve.
- Effect on the Accounts - People & Policy staff have assisted in collecting and calculating the data, resulting in an accrual of £71k at March 2009. This accrual increased to £85k in March 2010. The March 2009 figure must be removed from the opening General Fund Reserve. The extra £14k in 2009/10 will be an additional cost to the Consolidate I&E and a further reduction in the General Fund Reserve.

4.5.1.4 Assets held for sale (IFRS 5) requires the split of surplus assets between those with clear intentions for disposal within the following 12 months and those with longer term disposal plans. Assets for 'immediate' sale are to be classed as current assets rather than long-term assets.

- What it means for Rossendale – the opening balance at 1st April 2009 must be split by examining the disposal intentions for each asset.
- Effect on the Accounts – the assets relating to the future plans for Rawtenstall Town Centre (value £500k) remain as long-term assets, whilst the balance move to current assets.

4.5.1.5 Component Accounting (IAS 16) requires the separate recognition, depreciation and de-recognition of parts of assets (often referred to as 'componentisation'). Essentially this means that for 'larger' assets any 'significant' component (e.g. a flat roof) which has a different useful life to the remainder of a building (e.g. the bricks & mortar) should be listed as a separate sub-asset or component. Depreciation would then be calculated on the true life of this component and if/when the component is replaced the net value of that component is written off before the capital replacement works. Neither IAS 16 nor the new Code stipulate the value of 'larger; assets subject to component accounting or the definition of a 'significant' component. Rather they require each authority to determine their own criteria.

- What it means for Rossendale – the Council needs to determine what it defines as 'larger' assets and what is a 'significant' component. Within the normal revaluation programme from 1st April 2010 any assets which meet the definition will then be subject to component accounting and the Council's valuer will be instructed to assess the components current value and remaining useful life.
- Policy suggested – officers suggest that the de-minimis value for 'larger' assets should be set at £100k and the significant component definition be set at 10%. This would ensure that components

meeting this criteria also meet the Council's overall capital deminims level of £10k.

- Effect on the Accounts – this requirement only comes into effect from 1st April 2010, therefore does not retrospectively affect the 2009/10 accounts. The definitions suggested above would lead 16 assets to be subject to component accounting over the next 5 years, thus keeping the extra work each year for the Council's valuation contractor to a minimum.

4.5.1.6 Leases (IAS 17) changes the treatment of leases and requires the recognition of any leases embedded within contracts. Officers have investigated the contracts in operation during 2008/09 and 2009/10 and concluded that the only potential instance was the vehicle operated by the dog warden service. Since this vehicle does not carry Rossendale Borough Council livery it is not deemed solely for use with this contract and therefore eliminated from considerations. All refuse vehicles leased until the end of 2009/10 were correctly treated as operating leases.

4.5.1.7 Work required to amend the way Council Tax and Non-Domestic Rates are accounted for was implemented nationally in the 2009/10 accounts, therefore no further action is required.

4.5.1.8 Similarly changes to the handling of PFI schemes was implemented in the 2009/10 financial year, though Rossendale Borough Council does not operate any.

4.5.1.9 At present officers do not envisage any other significant changes to the Council's accounting policies, though there may be some changes to the wording of policies to comply with the disclosure requirements in the re-statement of the full Statement of Accounts.

4.5.2 Impact on Council's Financial Position

4.5.2.1 The only net impact on the Council's financial position is the £85k of General Fund Reserve which has been removed as a creditor accrual/provision for the value of employee leave carried forward at the end of March 2010.

4.6 **Re-drafting the Core Statements – Appendix 2**

4.6.1 Movement in Reserves Statement

4.6.1.1 The Movement in Reserves Statement is a new table intended to draw the reader's attention to the changes during the year, most specifically those in the Useable Reserves.

4.6.1.2 This draws together the data from other statements as follows:-

- the opening Balance Sheet figures,
- the Comprehensive Income and Expenditure Statement,
- the adjustments formerly covered by the Statement of Movement on General Fund Balance,
- the removal of items formerly included in the Statement of Total Recognised Gains and Losses

- to arrive at the closing Balance Sheet figures.

4.6.1.3 Group activity is presented as a separate column on the right hand side of the table.

4.6.1.4 Any changes to figures quoted in the former SORP Accounts are explained in the notes for the individual statements below.

4.6.2 Comprehensive Income and Expenditure Account

4.6.2.1 The Comprehensive Income and Expenditure Account (I&E) is a combination of the former Income and Expenditure Account and the Statement of Total Recognised Gains and Losses.

4.6.2.2 As explained in paragraph 4.5.1.2 above, £3,420k of income from Government Grants Deferred write off has now been removed from the 2009/10 I&E.

4.6.2.3 As explained in paragraph 4.5.1.3 above, IFRS also requires the Council to accrue for the value of employee leave carried forward at the year end. In March 2009 this value was £71k, a figure which has been moved from General Fund Reserves to Short-term Creditors in the March 2009 Balance Sheet. At March 2010 the required creditor had increased to £85k. The difference results in an increase of £14k in the deficit on the I&E in March 2010 and a corresponding reduction in the General Fund Reserve.

4.6.2.4 Items in the Other Comprehensive Income and Expenditure section include those attributable to the Group elements of Rossendale Transport Ltd and the Trust Funds administered by the Council, as well as items previously reported in Statement of Total Recognised Gains & Losses.

4.6.3 Balance Sheet

4.6.3.1 Obvious changes are the inclusion of Group Accounts and the presentation of three financial years to aid the transition between SORP and IFRS.

4.6.3.2 Most of the required re-classification of tangible assets took place at the end of the 2009/10 financial year. The remaining change to the presentation of tangible assets has been the split of surplus assets to be sold within one year and those held on a more long-term basis (see 4.5.1.4). Long-term surplus assets are those held in relation to the Rawtenstall Town Centre redevelopment.

4.6.3.3 In terms of real change to the Balance Sheet position of the Council the only impact of IFRS has been the accrual to Short Term Creditors for the value of employee holidays carried forward (see 4.5.1.3). This has reduced the General Fund Reserve at 1st April 2009 by £71k and by a further £14k at 31st March 2010. At the same time the value of Short Term Creditors has risen.

4.6.3.4 Two other presentational changes are the transfer of Government Grants Deferred to the Capital Adjustment Account (see 4.5.1.2) and the classification of Unapplied Government Grants as Useable Reserves.

4.6.4 Cash Flow Statement

4.6.4.1 There are only minor wording changes and the inclusion of Group Accounts.

4.6.5 Re-drafting the full Statement of Accounts

- 4.6.5.1 Work will now commence on the task of re-drafting the full Statement of Accounts document, amending accounting policies and adding Notes where required.
- 4.6.5.2 The completion of this work during November/December 2010 will also incorporate the majority of 'roll-over' tasks which would normally take a considerable amount of time during the closure of accounts in May 2011.

4.7 Audit of the Conversion

- 4.7.1 To date colleagues in the Audit Commission have been kept informed of the progress in training and implementation.
- 4.7.2 In February 2010 officers responded to the Audit Commission national questionnaire which was designed to help the Commission understand the current position and plans being made by local authorities. From discussions with Finance colleagues across Lancashire, Rossendale was at a very similar stage to most other councils at that point.
- 4.7.3 In March/April 2010 staff received positive feedback from the auditors on the approach being taken towards the conversion of the March 2009 Balance Sheet ahead of the 2009/10 closure of accounts. This feedback recognised work done to collect the required data and the suitability of the working papers being prepared.
- 4.7.4 Audit Commission colleagues will be sent a copy of this report showing the re-drafted Core Statements.
- 4.7.5 It is also proposed to submit the re-drafted full Statement of Accounts to the auditors early in January 2011 along with the full conversion calculations and working papers. With such a timetable it is hoped that feedback can then be received and acted on well ahead of the closure of the 2010/11 accounts in April to June.

4.8 Training of Members

- 4.8.1 At the Audit and Accounts Committee in early March 2011 the intention is to submit a version of the re-drafted Statement of Accounts which should be substantially complete and agreed with the auditors.
- 4.8.2 At this point Members will receive fuller training on the differences between the IFRS accounts and those under the old Statement of Recommended Practice. This training will then prepare Members for their role in scrutinising the draft 2010/11 accounts in June 2011.

COMMENTS FROM STATUTORY OFFICERS:

5. SECTION 151 OFFICER

- 5.1 Changing to IFRS has not affected the cash position of the Council's 2009/10 accounts.
- 5.2 As previously stated the only significant net effect of all these changes is the transfer of £85k out of the General Fund Balance to Short Term Creditors for the value of employee leave carried forward at March 2010.

5.3 In light of the current financial climate and the costs of this change over the past two years, the comparative cost/benefit of transferring to IFRS has been strongly questioned with the Secretary of State for Communities and Local Government. No reply has been received at the point of writing this report.

6. MONITORING OFFICER

6.1 The Accounts and Audit Regulations 2003 state that the Council is required to approve the draft 2010/11 Statement of Accounts, submitted under IFRS, by 30th June 2011. The work completed and planned, as documented in this report, will help to ensure that the above deadline can be met.

7. HEAD OF PEOPLE AND POLICY (ON BEHALF OF THE HEAD OF PAID SERVICE)

7.1 There are no direct Human Resources implications.

8. CONCLUSIONS

8.1 That the project to convert the Council's Statement of Accounts for 2009/10 is on track to support the efficient closure of the 2010/11 accounts under IFRS.

9. RECOMMENDATION(S)

9.1 That Members approve the adjustment of £85k from the General Fund Balance to create the Short Term Creditor for the value of employee leave entitlement carried forward.

9.2 That Members approve the accounting policy amendment for componentisation suggested at 4.5.1.5 above – the de-minimis value for 'larger' assets should be set at £100k and the significant component definition be set at 10%.

9.3 That the amended Core Statements as presented at Appendix 2, are approved to be used to re-draft the Statement of Accounts for the year-ended 31st March 2010.

9.4 That permission be given for the re-drafted Statement of Accounts for the year-ended 31st March 2010 to be presented to the Audit Commission for consultation prior to the next Audit and Accounts Committee in March 2011 and ahead of the accounts closure process for 2010/11.

10. CONSULTATION CARRIED OUT

10.1 Audit Commission and colleagues in finance and property services across the North West.

11. COMMUNITY IMPACT ASSESSMENT

Is a Community Impact Assessment required ~~Yes~~ / No
Is a Community Impact Assessment attached ~~Yes~~ / No

12. BIODIVERSITY IMPACT ASSESSMENT

Is a Biodiversity Impact Assessment required ~~Yes~~ / No
Is a Biodiversity Impact Assessment attached ~~Yes~~ / No

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Background Papers	
Document	Place of Inspection
IFRS Preparation working papers	Finance Department, Futures Park, Room 222