Report to the Audit and Governance Committee

Report reference: AGC-022-2010/11
Date of meeting: 15 November 2010

Epping Forest District Council

Portfolio: **Finance & Economic Development.**

Subject: **Adopting International Financial Reporting Standards.**

Responsible Officer: **Peter Maddock** **(01992 564602).**

Democratic Services: **Gary Woodhall** **(01992 564470).**

Recommendations/Decisions Required:

(1) To note the transition from UK Generally Accepted Accounting Principles (UK-GAAP) to International Financial Reporting Standards (IFRS) for presentation of financial statements.

Executive Summary

In 2007, the Chancellor of the Exchequer announced that central government would adopt International Financial Reporting Standards (IFRS). The purpose behind this was to increase the degree of consistency across all sectors of the economy when presenting financial information and a reader of financial statements would know that whatever sector the accounts related to they would broadly be prepared using consistent accounting standards.

Central Government and the National Health Service adopted IFRS for financial years beginning on or after 1 April 2009 Local Authorities are to adopt this for financial years beginning on or after 1 April 2010.

The impact on shire districts such as the Council is not expected to be significant (i.e. mostly terminology and presentational issues) some of the more significant changes such as bringing assets constructed as part of a Private Finance Initiative (PFI) or Public-Private Partnership (PPP) on to the Balance Sheet tend to be mainly issues for larger authorities such as County Councils and London Boroughs.

The Statutory Statement of Accounts (SSoA), is currently prepared in line with an annually produced Statement of Recommended Practice (SORP). From 1 April 2010 this will no longer be in place as it will be replaced by accounts prepared in line with practice recommended under IFRS.

Reasons for proposed decision

To inform Members about changes to reporting\presenting the SSoA in the future.

Other options for action

No other options available.

Report:

Introduction

1. IFRS was adopted by the private sector for financial years commencing 1 January 2005 the purpose of this was to aid comparison between organisations within the private sector as previously the adoption of a variety of accounting policies had made meaningful comparisons difficult.

2. It was also felt that IFRS should be adopted by the public sector not only to provide a degree of consistency with the private sector in the UK but also to ensure that internationally the same broad set of reporting standards were being adopted. Having said that Local Authorities do not operate in the same way as the private sector and financial comparisons between the two types of organisations will always be difficult and could be argued why would the comparisons need to be made anyway.

Timetable

3. Attached at appendix 1 is Local Authority Accounting Panel 80 (LAAP80) issued in March 2009 setting a proposed timetable for local authorities for the implementation of IFRS. This sets a provisional guide to local authorities following lessons learnt within the implementation process of central government and the NHS.

4. After attending training sessions it became clear a number of issues still need to be clarified and guidance from CIPFA is to be issued to assist with this, it is however unlikely to be available before December 2010 which is somewhat late given that the proposed timetable at appendix 1 suggested having the restatement of the opening balance sheet for 2009/10 completed by December 2009, 12 months prior to the issue of the guidance.

5. Although there seems to be some delay the Council are on track with the implementation process and the next trigger point is to restate the 2009/10 balance sheet.

Impact

6. Attached at appendix 2 are the current accounting standards in issue and their applicability to public sector accounts and a column to show their impact on EFDC.

7. At present the following items are with the external auditors for consideration that may specifically impact upon EFDC:

- **Format –** The information presented under IFRS is the same but in a slightly different format and order. The Income and Expenditure Account and Statement of Recognised Gains and Loses are amalgamated and called the Comprehensive Income and Expenditure Statement. The Statement of Movement on General Fund Balance will be renamed the Movement in Reserves Statement and contain additional reconciling items so that the final figure on the statement still shows the amount added to or taken from the General Fund Reserve.

- **Leasing –** Service contracts that the Council is party to need to be reviewed to assess whether there are any arrangements within them that could be construed as containing a lease type arrangement. For example, where a contractor providing a waste management service provides vehicles solely for use on that contract, those vehicles, subject to certain conditions under IFRS, could be viewed as being ‘leased’ to the Council and therefore need to be accounted as such. As with many other accounting regulations this would only need to be accounted for as a lease type arrangement if it was felt significant in terms of the value of the contract on which the assets were deployed.

- **Tangible Assets –** Previous practice has been to account for assets and their related depreciation based on individual whole assets. From 1 April 2010 there is a requirement to account for components of assets separately from the rest of that asset where the component is both significant and has a substantially different lifespan to the asset itself. For example, the Civic Offices is currently undergoing the installation of a new heating system and new windows. Both these would have a lesser lifespan than the building itself but compared to the value of the building a view would need to be taken as to whether they are 'significant' enough to be accounted for as a separate component. Guidance on assessing in which instances components should be applied is awaited, without clear guidance inconsistencies across Local Authorities will be rife particularly where Housing Revenue Account (HRA) dwellings are concerned where some authorities might choose to identify components within HRA dwellings and others might not. The requirement to account for components only applies going forward to new assets or where existing assets are revalued.

- **Employee Benefits –** This relates to accumulating absences (leave and flexi hours) whereby hours carried forward from one financial year to the next have a value and that value should be accounted for in the year that it is earnt rather than taken. Non accumulating absences (i.e. jury service, maternity\sickness leave) are not allowed to be carried forward. Again this is subject to being significant but given that you have to carry out the task to see whether it is significant anyway this has been done and actioned already within the 2009/10 accounts recently approved.

- **Government Grants Deferred –** Certain capital grants were allowed to be written off to the Income and Expenditure over the life of the asset to offset depreciation that is being charged. Under IFRS these are no longer to be carried forward but written off to revenue in the year they are received, unless certain criteria have to be met before they are spent, they may only be carried forward until the criteria are met or repaid under the terms of the agreement.

- **Segmental Reporting –** There is now a requirement to include, in the SSoA, expenditure in line with the Councils own reporting arrangements as well as the current Best Value Accounting Code. For this Council it would mean reporting expenditure on a directorate by directorate basis and reconciling this back to the Best Value Accounting Code information. This is carried out as part of the Accounts closure process so is really only publishing something that is already done.

- **Private Finance Initiatives (PFI) –** This is a form of off-balance sheet finance whereby the private sector carry out major construction projects and lease them back to the Council over a period of time. The new procedures assess who accepts the risk and rewards of ownership and whichever party does so will need to account for the asset concerned.

<u>Progress</u>

8. The Council will be carrying out the restatement under IFRS during the second half of November and the first half of December. The major difficulty with this will be the absence of guidance but to leave the 2009/10 restatement any later could cause problems to the accounts closure process for 2010/11. Once completed this will be subject to External Audit scrutiny during January 2011, with a view to creating the statements prior to year end.

<u>Summary</u>

9. The Councils Accounts will be prepared under IFRS from 1 April 2010. There are a number of changes that will result from this, some of them are of a cosmetic however others will require some work on the Council's part much of which will be carried out in the next month or so.

Resource Implications

Budget provision: Existing salaries provision.

Personnel: No extra personnel required.

Land:	Nil.
Relevant Statutory Powers:	Local Government Act 2003.
Background papers:	Held within Finance Department.

Legal and Governance Implications

Financial reporting needs to be on the basis of latest guidance and regulations therefore it is good practice, where appropriate, to follow this guidance.

Safer, Cleaner, Greener Implications

The Council's accounts contain expenditure in relation to this initiative.

Consultations Undertaken

There have been some general consultations with other council officers on specific IFRS issues.

Background Papers

Various working papers held in Accountancy.

Impact Assessments

<u>Risk Management</u>
These reports are a key part in managing the financial risks faced by the Council. In the current climate the level of risk is increasing. Prompt reporting and the subsequent preparation of action plans in Cabinet reports should help mitigate these risks.

<u>Equality and Diversity:</u>

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	No
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	No

What equality implications were identified through the Equality Impact Assessment process?
None.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A.