

AGENDA MANAGEMENT SHEET

Name of Committee **Audit & Standards Committee**

Date of Committee **28th May 2009**

Report Title **Strategy for Implementing International Financial Reporting Standards (IFRS)**

Summary This report is to update the committee on Warwickshire County Council's progress in preparing for the implementation of international Financial Reporting Standards (IFRS).

For further information please contact:

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Would the recommended decision be contrary to the Budget and Policy Framework? No.

Background papers None

CONSULTATION ALREADY UNDERTAKEN:- Details to be specified

- Other Committees
- Local Member(s) N/A
- Other Elected Members
- Cabinet Member
- Chief Executive
- Legal
- Finance David Clarke - Strategic Director, Resources (reporting officer)
- Other Chief Officers
- District Councils

- Health Authority
- Police
- Other Bodies/Individuals

FINAL DECISION YES

SUGGESTED NEXT STEPS:

Details to be specified

- Further consideration by this Committee
- To Council
- To Cabinet
- To an O & S Committee
- To an Area Committee
- Further Consultation

Agenda No 7

Audit & Standards Committee - 28th May 2009.

Strategy for Implementing International Financial Reporting Standards (IFRS)

Report of the Strategic Director, Resources

Recommendation

That the progress on the implementation of the International Financial Reporting Standards is noted.

1 Purpose of Report

- 1.1 To update the committee on Warwickshire County Council's progress in preparing for the implementation of international Financial Reporting Standards (IFRS).
- 1.2 From 2010/11 local authority financial statements will have to be prepared in line with International Financial Reporting Standards (IFRS) rather than the current arrangements which are in line with UK General Accepted Accounting Principles (GAAP).

2 Brief History/Introduction

- 2.1 The annual financial statements for Warwickshire County Council and all other local authority entities are currently prepared using accounting policies based on UK Generally Accepted Accounting Practice (GAAP). From 2010/11 local authority financial statements will have to be prepared in line with International Financial Reporting Standards (IFRS).
- 2.2 In order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice, local government bodies are to move to preparing their financial statements using International Financial Reporting Standards (IFRS). These standards will be adapted as necessary for the public sector.
- 2.3 One year ahead of local government is the introduction of IFRS to Central Government, Probation Boards and NHS Foundation Trusts. It is envisaged that it will be possible to learn valuable lessons from these bodies, as well as from the experiences of the private sector.

- 2.4 At the current time the full details of the impact IFRS will have on the council is not fully known. CIPFA anticipates that the 2009 Statement of Recommended Practice will be issued in September 2009. Consultation on the first IFRS-based Code of Practice on Local Authority Accounting is expected to begin in summer 2009.
- 2.5 There are a number of unique features to local authority accounting such as Council Tax setting rules and accounting for capital transactions that are driven by UK Primary legislation that does not align with IFRS. This is one of the primary drivers in the delay by CIPFA issuing guidance on how to implement IFRS for local authorities.
- 2.6 Below is a high level impact assessment for Warwickshire County Council of the transition to IFRS.

3 Impact assessment

- 3.1 **PFI** - One of the key differences under IFRS is the accounting treatment of Private Finance Initiatives (PFI) accounting. This is an area that requires significant restatement especially where land and buildings are involved. Warwickshire County Council only currently has one PFI arrangement. The scheme is currently being evaluated in light of the IFRS rules, however as the scheme does not involve any land, buildings or large residual values the consequences of re-statement are unlikely to have a material impact on the council's accounts.
- 3.2 **Fixed Assets** – IFRS requires fixed assets to be held at 'fair value' as opposed to the current requirements for 'current value'. Fair value is deemed to be the amount at which an asset or liability could be exchanged in an arm's length transaction between two parties. Current value expresses assets value in terms of their current or replacement cost. Current value methods we use are existing use value, depreciated replacement costs (where there is no active market for the asset being valued) and market value. Given the volume of assets held by Warwickshire County Council this transition will create a significant volume of work.
- 3.3 **Leases** – IFRS requires that the leases of land and buildings are to be accounted for and disclosed separately. This will also require reassessment as to whether leases are finance or operating leases (the basis has changed) so that some assets may be added to our balance sheet and some may be removed.
- 3.4 **Joint ventures and associates** – under IFRS a local authority only needs the power to influence another entity (rather than to actually exercise it) for it to be treated as part of the group. This may require us to re-consider consolidation into our financial statements of some of the entities in which we have an interest where we are currently not required to do so.

- 3.5 **Financial Instruments** – local government has introduced revised financial reporting standards on these early. They are quite complex and cover a large part of the balance sheet e.g. loans and investments. There are a number of new and extensive disclosures which Warwickshire County Council will comply with in the 2008/09 financial statements.
- 3.6 **Investment Property** – the IFRS based Financial Reporting Manual (I-FReM) interpretation states that these are properties held only for the purpose of earning rentals or for capital appreciation or both. We will need to reassess our portfolio to ensure that they comply with this definition. Specifically, assets that are held for the purposes of a policy objective, such as regeneration or economic development, are excluded from the classification of being an investment property, even if those properties generate rental income.
- 3.7 **Employee Benefits** – under IFRS the council must account for untaken annual leave and lieu time on the balance sheet. For Warwickshire County Council it is not feasible to canvas all 18,000 staff and we are in the process of agreeing an acceptable estimating technique with the external auditors. CIPFA and the Department for Children, Schools and Families (DCSF) are investigating the complex issues surrounding the treatment of teachers pay in relation to this item. In addition the reporting requirements for pension assets and liabilities are also changed slightly.

4 Warwickshire County Council response

- 4.1 A dedicated project team has been created to manage the transition to full compliance with IFRS for Warwickshire County Council.
- 4.2 Although the council's 2010/11 accounts will be the first to be prepared on an IFRS basis, there will be a number of key tasks to be undertaken prior to that time. These include:-
- Restating the 2009/10 accounts on an IFRS basis. This will be completed in the Autumn. In addition this process will also need to provide the opening balances at 1 April 2009 on an IFRS basis, and
 - The preparation of the Whole of Government Accounts (WGA) will be on an IFRS basis from 2009/10.
- 4.3 It is recognised that in the private sector, introduction of IFRS was most successful where functions other than finance were also involved at an early stage, such as estates, procurement and IT. A dedicated multi- disciplinary team has been coordinated to manage the Warwickshire County Council's transition to full compliance with IFRS.
- 4.4 Over the last two years a number of training events have been organised for the finance community of the County Council, the District and Borough Councils and the Warwickshire Police Authority to ensure that the finance community have fully engaged in the transition to IFRS compliance.

4.5 Warwickshire County Council will continue to contribute to the consultation process being carried out by CIPFA.

5 Conclusion

5.1 The Introduction of IFRS is a major change to public sector accounting and due to the nature and complexity of the conversion to IFRS adopting a structured approach to its implementation should ensure a smooth transition for Warwickshire County Council.

5.2 The preparation to date and the creation of the dedicated project team will ensure that Warwickshire County Council will comply fully with the requirements of IFRS.

DAVID CLARKE
Strategic Director, Resources

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18 May 2009