REPORT TO	DATE OF MEETING
Governance Committee	1 December 2010

Report template revised June 2008

SOUTH RIBBLE BOROUGH COUNCIL
forward with South Ribble

SUBJECT	PORTFOLIO	AUTHOR	ITEM
International Financial Reporting Standards	Finance & Resources	G Whitehead	

1 Summary and link to corporate objectives

The standards with which Councils have to comply in producing their accounts changed with effect from 1 April 2010. External Audit identified this as a high risk area in their audit plan and recommended that members should be aware and involved in tracking progress.

This report advises that significant progress has been made in assembling information and completing calculations to enable restatement of the accounts for previous years. Furthermore it is not envisaged that there will be any delay in production of the 2010/11 accounts by the statutory deadline of 30 June 2011. It identifies outstanding work and reports on the planned completion time.

2 Recommendations

That the Committee note the report.

3 Details and reasoning

Up to 31 March 2010 Local Authorities produced their Statements of Account in accordance with United Kingdom Generally Accepted Accounting Standards (UKGAAP). In 2010/11 the accounts have, instead, to conform to a Code of Practice based on International Financial Reporting Standards (IFRS).

The major concern with the implementation of IFRS is that it might delay the production of the accounts at 31 March 2011. Achievement of the statutory deadline of 30 June 2011 is a key performance indicator for the Council.

In addition the changes to some of the numbers, explained in more detail in the following paragraphs, will affect the “bottom line”, i.e. the surplus or the deficiency shown in the accounts. This would ultimately become an issue to be dealt with by the Council in fixing its budget. However, this has been avoided by the Government, who have made statutory provision to transfer the net effect into a reserve. In doing this it has followed the precedent set with regard to other issues, there being a number of differences between the statutory basis for determining council tax and the accounting bases used to produce the accounts.

The Audit Commission’s Guide for Senior Managers and Members (June 2010) advised:

- “The implementation of IFRS does not mean wholesale changes, but where changes do occur a significant amount of work is required to assess the impact on the accounts.”

It went on to identify:

- That the key technical issues were PFI, leases, property, plant and equipment, employee benefits and disclosures
- That it was essential that the changeover processes were adequately planned
- That inter-departmental working teams should be established to deal with the different issues (teams involving staffing, property, legal and finance).

- That adequate training should be provided to staff.
- That the Audit Committee should be engaged and aware of the issues
- That regular liaison with the External Auditor should be maintained.

4 Progress

IFRS requires changes in the way that certain issues are dealt with in the accounts. The following list details the potential and actual issues for South Ribble, and the progress made.

Public Finance Initiative Schemes	Under IFRS these projects, previously "off balance sheet", have to be brought on to the balance sheet. **The Council has no PFI projects and so this has not been an issue**.
Leases	Both Councils are involved as lessors (in letting land and property), and as lessees (using assets owned by other parties). IFRS has redefined the distinction between finance leases (which have to be reflected in the balance sheet) and operating leases (where the lessee has use of, but never ownership of, an asset). This has necessitated staff from both Finance and Property in researching the terms of all leases, including those embedded in contracts. **This work has been completed and has resulted in the reclassification of a single lease.**
Employee Benefits	All benefits accrued at year end (e.g. outstanding leave entitlement) have to be identified and valued. The additional charge in the Council's accounts is £140k. This has been avoided as a result of the statutory provision referred to above. **This work has been completed by HR and Finance staff**.
Property, plant & equip'	IFRS potentially requires the reclassification of certain assets, dependent on the reasons they are held. **This work is ongoing by Valuers but should be completed in early December.** IFRS requires that the "major components" of a property (e.g. heating plant or roof) be separately identified and depreciated as and when assets are re-valued or enhanced after 1/4/10. Definitive guidance from the RICS is still awaited by Valuers, **but initial work is underway and will be completed in early December.**
Capital grants	These are now taken to the revenue account. This results in an additional credit in 2009/10 of £1.98m. The impact is however reversed by statutory provision. **The necessary restatement of the accounts has been completed.**

The effect of these changes on the Balance Sheet has to be calculated as at 31 March 2009 and 31 March 2010 and on the Income and Expenditure account for the year 2009/10. As can be seen from the comments above work has been completed for most issues and is underway on the others. **It is intended that all work will be completed by 31 December 2010.**

In addition to the work described above, the Statement of Accounts, which for each authority runs to approximately 60 pages, has to be redrafted to ensure that the disclosures required under IFRS are made, and that the accounting policies and notes are updated. **This work has commenced and should be completed by 31 January 2011.**

Changes to the coding structures and the chart of accounts will be required. **This work will be done as part of the Financial Information System upgrade currently in progress.**

The external auditors have been made aware of the work being done, have seen working papers and been consulted on specific issues. They have yet to approve the restatements. **They plan to carry out their work between January and March 2011.**

All work needs to be completed in a timescale which avoids delay in the production of the 2010/11 accounts by the deadline of 30 June 2011. Effectively this means that work should be completed by the end of February 2011. This should be achieved

12 WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	The financial implications are outlined within the report.
LEGAL	Compliance with various Regulations and statutory Codes of Practice
RISK	That the Council will fail to produce its accounts by the 30 June 2011 deadline.
OTHER (see below)	

Asset Management	*Corporate Plans and Policies*	*Crime and Disorder*	*Efficiency Savings/Value for Money*
Equality, Diversity and Community Cohesion	*Freedom of Information/ Data Protection*	*Health and Safety*	*Health Inequalities*
Human Rights Act 1998	*Implementing Electronic Government*	*Staffing, Training and Development*	*Sustainability*

BACKGROUND DOCUMENTS

CIPFA Code of Practice on Local Authority Accounting
International Accounting Standards