WIRRAL COUNCIL

CABINET

9 APRIL 2009

REPORT OF THE DIRECTOR OF FINANCE

INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. EXECUTIVE SUMMARY

1.1. This report provides Cabinet with an overview of the implications of the changes required for the Council to comply with International Financial Reporting Standards by the 2010/11 financial year.

2. INTRODUCTION

2.1. Public Sector accounts, including local authorities, are presently compiled in accordance with the UK Generally Accepted Accounting Practice (GAAP), for which the CIPFA Code of Practice on Local Authority Accounting known as the Statement of Recommended Practice (SORP) provides more detailed information. The then Chancellor of the Exchequer announced in his 2007 Budget that public sector accounts are to adopt International Financial Reporting Standards (IFRS). Whilst in the private sector the changes were required at group / parent company level all public sector organisations are required to adopt the standards.

2.2. International Financial Reporting Standards aim to bring a uniformity and transparency to global accounting standards by standardising accounts across all countries and all sectors. It is viewed as encompassing organisation-wide change rather than a challenge for the technical updating by finance professionals. Therefore whereas previously there could have been different interpretations or approaches in countries, sectors or even authorities IFRS are far more prescriptive.

2.3. IFRS will apply to over 2,000 public sector bodies. Central Government and the National Health Service are changing to accounting on an IFRS basis from the 2009/10 financial year. Local Authorities follow with the requirement to change by 2010/11, but the need for prior year comparative data means the accounts for 2009/10, once completed, will require conversion under IFRS and so actions have to be taken during 2009.

2.4. Brief guidance has been made available to local authorities but much of the detail is awaited and there may be changes made by the Government through the use of Statutory Instruments. This will become clearer throughout the coming months particularly after the completion of accounts by Central Government and the National Health Service. Recognising that the detail has yet to be finalised the implementation dates have been set and authorities have to prepare in order to comply with IFRS.

3. IMPLEMENTATION

3.1. The IFRS framework is based upon 8 IFRS and 31 International Accounting Standards that are supported by a series of Interpretation Documents. All bodies are expected to comply and HM Treasury started in 2006 to produce the Manual (IFReM) to provide the interpretation as adopted for the public sector. There will be less discretion and less dispensation than under previous accounting regulations.

3.2. For local authorities CIPFA is expecting to formally consult on the IFRS based Local Government Code on Local Authority Accounting for 2010/11 in June 2009. This will replace the SORP. Over recent years there have been steps taken to move towards IFRS although there remains a not inconsiderable workload to be addressed over the next couple of years which will affect the whole of the Council.

3.3. Learning from the experiences of the private sector and other parts of the public sector there are a number of key challenges in ensuring a smooth transition as the impact is not just on those working within finance disciplines but other disciplines, on systems and on processes:-

- Technical changes
- Project / change management
- Capacity and capability

4. TECHNICAL CHANGES

4.1. The presentation of the end of year Statement of Accounts could impact upon the preparation of the Annual Budget and also potentially upon the level of Council Tax. CIPFA is engaged in discussions with the Department for Communities and Local Government (DCLG) to ensure that the impact can be minimised, if not avoided, and that any actions are in place before setting 2010/11 budgets. Of particular concern is the area of employee benefits which, unless mitigating regulations are introduced, will impact upon the financial position.

4.2. Statement of Accounts

4.2.1. The expectation is that the Statement, which is presently in excess of 100 pages, will substantially increase and authorities will be expected to find more meaningful ways of communicating with local people. The re-introduction of the Wirral Council Annual Report in 2007/08 offers such a medium.

4.2.2. The reasons for the increase in size are around the detail required to be provided and then reported in the Disclosure Notes. These support the Statement and many will be re-titled and have to be restated in the new format with the changes from previous statements fully explained.

4.2.3. Greater disclosure is required on the arrangements for internal monitoring and reporting. The reporting arrangements are focussed around finance, capital and assets. It is viewed that IFRS provides for better and more informed management information as by following a standard accounting language this is produced on a more consistent basis across all areas, which should help to enable better informed decision-making.

4.2.4. As referred to previously the statements will be prepared in accordance with the IFRS based Local Government Code on Local Authority Accounting for 2010/11 due to be consulted upon around June 2009.

4.3. Financial Instruments

4.3.1. This area was recognised as being of high complexity and as such it was one of the areas brought forward for local authorities, ahead of the rest of the public sector. The changes were incorporated into the SORP and largely implemented as part of the 2007/08 Statement of Accounts.

4.3.2. The result was additional disclosures. The Audit Commission in the Annual Governance Report 2007/08 stated that 'Wirral has introduced these complex requirements well and we have no concerns with presentation and accounting for financial instruments'

4.3.3. This is likely to be an area that the IFRS will further expand to assess the degree of risk involved given events in the financial sector over the past year.

4.4. Private Finance Initiative Schemes

4.4.1. As PFI schemes are controlled by the Council which then benefits from the residual value at the end of the arrangements the related data is to be included within the Council accounts. This change will impact upon the Treasury Management Prudential Indicators.

4.4.2. IFRS requires retrospective application to the start of the contract which is complex and will be required for the Wirral Schools PFI scheme which has undergone several well documented changes since originally being agreed.

4.4.3. Guidance is being prepared by CIPFA and is expected to be in place so that the changes can be reflected in the 2009/10 Statement of Accounts.

4.5. Leases

4.5.1. The Council presently acts as both lessor and lessee and the categories of leases will change. Leases will be initially split between land and buildings and then reviewed to ascertain if they are operating or finance leases. The latter will be subject to the capital regulations and the assets have to be reflected on the Balance Sheet.

4.5.2. This requirement involves a detailed review of all leases and represents a major task for valuers within Asset Management and also for Legal Services to identify all relevant lease documentation in order that the classification can be undertaken.

4.5.3. The scope of the work will also extend to any contractual arrangements whereby a Council employed contractor fulfils the terms by using assets exclusively for that particular Council. One example often quoted is waste collection vehicles.

4.6. Employee Benefits

4.6.1. Under IFRS the main benefit referred to is outstanding holiday pay although others could be included such as flexitime if the amounts are material. The requirement is that the value of any untaken leave needs to be accrued and included on the Balance Sheet.

4.6.2. This will have an impact upon the financial position and is the subject of discussions between CIPFA and the DCLG. The need to re-state the prior year accounts means that this information is required to be available at 31 March 2009.

4.6.3. This is an issue for all Departments and well as Human Resources because of the implementation and interpretation of the present policies and procedures regarding untaken leave at the end of the year.

4.7. Assets

4.7.1. Under IFRS assets are required to be split into component elements to reflect the differing life spans and therefore the different lengths of time over which the value of the elements have to be depreciated.

4.7.2. However, the draft CIPFA proposals indicate that this does not have to be fully in place for the opening balances at 1 April 2009. Only significant components will have to be identified and the requirement will only apply as assets or components are acquired, replaced or revalued after 1 April 2010.

4.7.3. The Audit Commission in the Annual Governance Report 2007/08 identified areas for further work around highways related assets which is presently being undertaken.

4.7.4. This is an issue that impacts upon Asset Management as well as Technical Services with the detail that has to be identified in respect of the component elements needing considerable work which will include a review of the present asset management information systems.

5. PROJECT MANAGEMENT

5.1. The implementation of IFRS and conversion from compliance with the existing requirements is to be managed in accordance with the approach agreed by the Cabinet on 10 December 2008 for the Change Programme.

5.2. In terms of Governance progress will be reported to the Cabinet and to the Audit and Risk Management Committee. Underpinning this will be the officer groups as established for the Change Programme with a Change Board supported by specified Project Managers.

5.3. CIPFA continues to produce Project Plans for the implementation of IFRS to assist in a consistent approach across all organisations. A draft outline plan for Wirral has been prepared and this will be expanded upon over the coming months.

6. CAPACITY AND CAPABILITY

6.1. The areas of work identified in section 4 clearly require the direct involvement of those engaged within the Departments of Finance, Law, HR and Asset Management and Technical Services but will impact upon every department.

6.2. Whilst consultancy support is available the Council is presently making use of local workshop / training events that are supported by advisors to identify issues and potential solutions.

7. FINANCIAL IMPLICATIONS

7.1. The costs of implementing IFRS in some private sector organisations has been reported as being in excess of £1 million.

7.2. At this stage the only additional costs identified were those reported to Cabinet on 19 March 2009 by the Director of Law, Human Resources and Asset Management for working with the Land Registry.

7.3. There are likely to be significant additional financial implications as work progresses to implement IFRS.

7.4. The Audit Commission has indicated that the annual audit fee will be increasing to reflect the additional work involved in IFRS.

8. STAFFING IMPLICATIONS

8.1. At this stage the implementation is being managed within existing staffing resources. However the degree of work and capacity in Financial Services, Legal Services, Asset Management and Merseyside Pension Fund are being kept under review.

9. EQUAL OPPORTUNITY IMPLICATIONS

9.1. There are none arising directly from this report.

10. COMMUNITY SAFETY IMPLICATIONS

10.1. There are none arising directly from this report.

11. HUMAN RIGHTS IMPLICATIONS

11.1. There are none arising directly from this report.

12. LOCAL AGENDA 21 IMPLICATIONS

12.1. There are none arising directly from this report.

13. PLANNING IMPLICATIONS

13.1. There are none arising directly from this report.

14. MEMBER SUPPORT IMPLICATIONS

14.1. There are none arising directly from this report.

15. BACKGROUND PAPERS

15.1. International Financial Reporting Standards
International Accounting Standards
International Financial Reporting Manual – HM Treasury

16. RECOMMENDATION

16.1. That the implementation of IFRS be monitored as part of the Change Programme.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/81/09