

CHESHIRE EAST COUNCIL

Governance and Constitution Committee

Date of Meeting: 19 November 2009
Report of: Borough Treasurer
Subject/Title: Implementation of International Financial Reporting Standards (IFRS)

1.0 Report Summary

- 1.1 The purpose of this report is to advise Members on the implications of implementing International Financial Reporting Standards (IFRS).

2.0 Recommendations

- 2.1 That the Committee

(1) note the potential implications of the introduction of International Financial Reporting Standards for Local Government; and

(2) approve the proposed project plan, set out in Appendix 1.

3.0 Reasons for Recommendations

- 3.1 Local Authorities are required to adopt International Financial Reporting Standards (IFRS) by 2010-11. This will require a transition from current financial reporting standards and have a significant impact on the Authority.

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications including - Climate change - Health

- 6.1 None.

7.0 Financial Implications for Transition Costs (Authorised by the Borough Treasurer)

- 7.1 Not applicable.

8.0 Financial Implications 2009/10 and beyond (Authorised by the Borough Treasurer)

8.1 As covered in the report.

9.0 Legal Implications (Authorised by the Borough Solicitor)

9.1 Legal input will be required into the IFRS Project Team.

10.0 Risk Management

10.1 The Council has recognised that significant work will be required to assess the impact where changes are required to the accounts. It will require the collation of data that is currently not required and is not generated by the Finance department therefore the requirements of IFRS will also impact on the Human Resources, Asset Management, ICT and Legal departments of the Council.

10.2 A Project Team has been set up within the Finance Service to manage the transition to IFRS. Officers from Asset Management, Human Resources, Legal and ICT will work with the Project Team as required.

10.3 A project plan is attached as Appendix 1 to this report. Regular updates will be provided to members on progress against the project plan and the project team will be holding regular review sessions with External Audit.

11.0 Background and Options

11.1 Local Authorities currently report their Statement of Accounts under the Accounts and Audit (England) Regulations 2003 (as amended) in accordance with the Code of Practice Local Authority Statement of Recommended Practice (the SORP). The SORP complies with UK Generally Accepted Accounting Practice (UKGAAP) and not IFRS.

11.2 Accounts of central government departments and entities in the wider public sector are to be produced using a tailored form of IFRS. The Government is currently determining exactly how IFRS will be implemented in Local Government and certain aspects of the guidance are currently under consideration. This report, therefore considers, in the light of current guidance, the issues that Local Government is likely to face as it manages the transition to IFRS.

11.3 In recent years there has been a strong convergence on accounting standards and in the narrative reporting requirements of the accounts of bodies in the public and private sectors. Central government departments will be based on IFRS from 2009/10 and Local Government will follow suit in 2010/11.

11.4 The adoption of IFRS, which comprises a set of global standards and interpretations should assist in the comparison of organisations' financial performance across sectors and geographical boundaries.

Timetable

- 11.5 The first set of IFRS accounts will be the 2010-11 Statement of Accounts, which will be produced in June 2011. However, as part of these accounts the Council will need to include comparative information for 2009-10 meaning that the effective date of transition is at 1 April 2009 and the 2009-10 accounts will need to be restated in IFRS format.
- 11.6 Stage 1 - Restate April 2009 balance sheet to IFRS - by 31 Jan 2010
Stage 2 - Restate 2009/10 UK GAAP accounts to IFRS – by 31 Dec 2010
Stage 3 – Closedown 2010/11 on IFRS basis – 30 June 2011.
- 11.7 As a result of Local Government Reorganisation these timescales are very challenging. The opening balance sheet for 2009-10 has not yet been finalised as the former Cheshire County Council balance sheet needs to be disaggregated and then merged with the former Districts balance sheets. This exercise will need to be finalised before the restatement of the balance sheet on an IFRS basis.

Key Issues

- 11.8 Lease Arrangements – Reclassification of lease arrangements between operating and finance leases.

Leases which are currently shown as operating leases, are likely to be classified as financing leases, these will appear as assets on the balance sheet and will be subject to capital charges.

There is a significant task to identify all the lease arrangements and determine their classification. In addition, systems will need to be in place to ensure future lease arrangements are reviewed prior to entering into the arrangements.

- 11.9 Employee Benefits – The Council will be required to provide for the full amount of holiday accrued but not yet taken at each financial year end. This will require the Council to set up a holiday pay accrual, which will essentially be based on the number of holiday days earned but not yet taken at the period end multiplied by the daily rate of pay.

The Council will require systems to be put in place to identify how much annual leave each of its staff carry forward at the end of the financial year.

- 11.10 Fixed Assets – Reclassification and revaluation of some assets.

Fixed assets will be measured and recorded differently, particularly as a result of revaluation bases, impairment and revaluation losses. This will impact on asset management systems and will require substantial work from the Asset Management department.

- 11.11 Changes to Accounting Policies and disclosures

New disclosures will be required and the size of the Statement of Accounts is expected to increase. Changes to systems will be required in order to capture information that has not previously been recorded.

12.0 *Access to Information*

The background papers relating to this report can be inspected by contacting the report writer:

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Appendix 1

Step	Description	Dependency	Deadline	Progress to date
1	Carry out high level impact assessment using information on CIPFA web site (and other resources where available) PFI Leases Tangible Assets Employee Benefits (e.g. Holiday Pay) Other Areas		30 th November 2009	IFRS Toolkit and Action Plan produced during workshop with Baker Tilly – 2 October 2009. Information obtained from CIPFA website. Report to Governance & Constitution Committee Nov 09.
2	Identify changes to accounting policies	In parallel with step 1	31 st December 2009	
3	Identify key staff from Finance, HR, Asset Management, Legal and Procurement Assess whether resources adequate Allocate responsibilities Develop detailed project plan	Based on impact analysis in step 1	30 th November 2009	Key staff have been identified, responsibilities to be allocated and resources assessed.
4	Training of Key Staff on IFRS transition		Ongoing	CIPFA Technical Updates and FAN sessions attended, briefings to be provided to Finance staff and Project Team
5	Identify changes required to systems and procedures (including Chart of Accounts changes) required		31 st December 2009	
6	Identify information required to restate 1 April 2009 balance sheet and 2009/10 accounts <ul style="list-style-type: none"> • Leases • Employee Benefits • PFI • PPE 		31 st December 2009	
7	Develop skeleton Statement of Accounts under IFRS (including Notes and Policies)	Accounting policies in Step 2	31 st December 2009	
8	Obtain information required to restate 1 April 2009	Identified during Step 6	31 st December	

	balance sheet		2009	
Step	Description	Dependency	Deadline	Progress to date
9	Identify likely impact on budgets			31 st January 2010
10	Implement systems and procedural changes	Identified in step 5		28 th February 2010
11	Training for all relevant staff and members			Ongoing from November 2009
12	Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS)	Obtained in steps 7 & 8	31 January 2010	
13	Compile 2010/11 and later budgets on IFRS basis, building on restatement of balance sheet, taking into account changes to the final version of the Code and any regulations proposed by government to mitigate the impact on General Fund/HRA	Impact from step 9	31 January 2010	
14	Testing of systems and procedural changes	Follows on from step 10	March 2010	
15	Restate 2009/10 accounts in parallel with main 2009/10 accounts process (including reconciliation between UK GAAP and IFRS)	See steps 6, 7, 8, 12	December 2010	
16	Produce 2010/11 accounts on IFRS basis		June 2011	