

CORPORATE GOVERNANCE COMMITTEE – 25 MARCH 2010

INTERNATIONAL FINANCIAL REPORTING STANDARDS UPDATE

REPORT BY THE CHIEF CONSTABLE AND TREASURER

Introduction and Summary

- 1.1 This is the third report to the Committee on International Finance Reporting Standards (IFRS).
- 1.2 The purpose of this document is to provide the Committee with an update on the progress of the transition to IFRS accounting project. The report also provides an overview impact of IFRS on the 2009-10 accounts and a general update on the latest CIPFA accounting standard changes.
- 1.3 The timetable for implementation, with Police Authorities included in the Local Government wave, is set out below.

	2009-10	2010-11
Central Government	IFRS	IFRS
NHS	IFRS	IFRS
Local Government	UK GAAP/ IFRS and Comparatives	IFRS
Whole of Government Accounts	IFRS	IFRS

- 1.4 The main issues are highlighted in the table below.

Significant differences	Some differences	No significant differences
<ul style="list-style-type: none"> • Fixed assets • Leases • PFI (with effect from 2009-10) • Group accounts • Format of accounts • Employee benefits 	<ul style="list-style-type: none"> • Related party disclosures • Impairments • Intangible assets • Investment properties • Disclosures 	<ul style="list-style-type: none"> • Stocks • Post balance sheet events • Accounting for Government grants • Provisions • Financial instruments

Recent Developments

- 2.1 The long awaited Code of Practice on Local Authority Accounting (SORP), based on IFRS for 2010-11, has now been published by CIPFA, which gives guidance on the treatment of the accounts required under IFRS.
- 2.2 Key changes which will affect the financial statements and the year of impact include:

Change	Accounts
Changes to the main financial statements, plus additional requirements on segmental reporting.	2010-11
Emphasis on component accounting for fixed assets	2010-11
Property leases to be accounted for as separate leases of land and building	2010-11
Investment properties to be measured at fair value	2010-11
PFI schemes to be accounted for on the balance sheet	2009-10
Impairment losses taken initially to revaluation reserve, (providing there is a balance on the reserve relating to that specific asset)	2010-11
New classification of non-current assets held for sale	2009-10
Employee benefits accounted for as they are earned	2010-11

Implementation Timetable

3. A detailed IFRS task plan has been drawn up to assist in the implementation of the requirements and the latest version is attached at Appendix A. The Force is generally on target but due to changes in staff, some tasks are behind the ambitious schedule we set ourselves. Key deadlines have been met, however a number are outstanding due to the later than planned receipt of valuation information. The latest assessment is that now that the crucial asset, Private Finance Initiative and lease valuations have now been received, we are on target to deliver the remainder of the plan.

Progress to date

- 4.1 The detailed task plan has identified the key elements which are in various stages of completion. We have so far:

- Established what is in the 2008-09 accounts and apply IFRS conditions to them
- Reviewed working papers, discuss the IFRS impact on the identified areas of change with the auditors
- Received property valuations to apply to assets and leases
- Gained an understanding of the PFI contracts, and received the model from external consultants to review

- 4.2 Key tasks still in progress:

- A set of pro forma accounts for 2010-11 has not yet been published, but the current format of the Financial Statements has been mapped to the proposed IFRS statements, for the key statements, along with the key International Accounting Standards and an impact rating of the restatement, i.e. Comprehensive Income and Expenditure Account, Statement of Recognised Gains and Losses for the year (STRGL), Statement of Movement on General Fund Balance for the year, Balance Sheet and Cash Flow. This is attached at Appendix B.
- Liaison with external consultants to establish final details of leases and the accounting impact.
- Final stages of working out the technical aspects of the transition in order to enable 2009-10 to be restated under IFRS conditions, and provide a template for 2010-11 and onwards.

Resourcing

- 5.1 The 1 April 2009 balance sheet and the 2009-10 accounts will need to be restated, which will require a significant amount of work, and as such additional temporary resources have been brought in to ensure the work is completed to schedule. An IFRS Project Manager and a Technical Accountant until the end of March and June respectively have been added to the team.
- 5.2 The loss of the Financial Accountant has an impact on the ability of the Financial Accounting team to progress the implementation of IFRS, but the temporary Financial Accountant and additional temporary resources will reduce this risk of meeting deadlines for IFRS compliance. The Head of Finance is personally leading the transition to IFRS and the production of the 2009-10 accounts.

Working Group

6. An IFRS Working Group has been established. A number of meetings have been held with a number of departments in order to gather data, establish the level of required SAP configuration and determine the overall impact of the transition process. This relates mainly to data on leases and employee benefits.

SORP 2009 Changes

- 7.1 There are some modifications under the 2009 SORP. These mainly relate to the appearance of the 2009-10 Income and Expenditure Account and Balance Sheet, however, there are also some changes to the notes to enhance disclosure of costs.
- 7.2 The main changes the Committee can expect to see to the 2009-10 accounts are :
 - BVACOP and the police objective analysis – segmentation of expenditure over the categories as part of the nationally agreed Police Objective analysis
 - Senior Officer pay - disclosure of remuneration (including employers pension contributions) over £50k in bands of £5k. Naming of individuals earning over £150k. CIPFA is currently drafting guidance on this area on the assumption that the new Regulations will take effect on 31 March 2010 and therefore will affect the 2009-10 final accounts.
 - Council tax debtor
- 7.3 The layout of the main statements are attached at Appendix C, using the 2008-09 figures from the Statement of Accounts.

RECOMMENDED – That the Committee notes the progress with implementing the transition to accounting under IFRS and the changes the 2009 SORP will have on the 2009-10 accounts.

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IFRS Implementation Plan
Red and Amber Tasks – All other tasks are green

Status	
R	May be started, but is becoming time critical
A	In progress, but not yet complete
G	Complete/resolved

Risk	
R	Requires immediate attention
A	Critical, and not requiring immediate attention
G	Critical, but has later deadline

Category	Task Detail	Status	Risk	Status
	IAS 40 - Investment Property			
Valuations	Wilks Head & Eve to provide valuation for Investment Properties as at 1 April 09.	A	A	Valuation data received. Analysis now underway
Balance Sheet	Calculate transitional balance sheet adjustments in order to comply with section 4.4 of the Code.	R	R	Awaiting results of valuation information
	IFRS 5 - Non Current Assets Held for Sale			
Valuations	Wilks Head & Eve to provide valuation for the properties as at 1 April 09.	A	A	Valuation data received. Analysis now underway
Balance Sheet	Calculate transitional balance sheet adjustments in order to comply with section 4.9 of the Code.	R	R	Awaiting valuation information
	IAS 17 - Leases			
Lease recognition	Assess all leases against the IAS 17 and Code criteria to determine whether they are finance or operating leases. (see flow chart and matrix)	A	G	Valuation information received. PWC currently assessing information
Lease recognition	For leases that are potentially finance leases, separately identify the L&B elements with the help of a valuer.	R	G	Valuation information received. PWC currently assessing information
Lease recognition	For finance leases - check whether land should be an operating lease.	A	G	PWC awaiting information from valuers, WHE
Balance Sheet	Calculate transitional balance sheet adjustments in order to comply with section 4.2 of the Code.	R	G	Delayed, awaiting information from PWC- who are awaiting WHE valuation
Balance Sheet	Quantify any Minimum Revenue Provision impact from newly categorised finance leases for transitional balance sheet.	R	G	Delayed, awaiting information from PWC
	IFRIC 12 - Service Concession Arrangements (PFI)			
PFI Contract	Summarise the accounting entries posted to date in respect of the PFI contract since its inception.	R	G	Received Feb 10- Currently under review
Balance Sheet	Grant Thornton to provide model which recalculates the PFI contract in line with the requirements of IFRS	R	G	Received Feb 10- Currently under review
Balance Sheet	Calculate transitional balance sheet adjustments in order to comply with section 4.3 of the Code.	R	G	Following review, to be calculated
PFI Contract	Identify the disclosures required for PFI contracts	R	A	To be considered once journal calculated
PFI Contract	Liaise with the Management Account to establish the effects on reserves and the budget for these accounting changes	R	A	To be actioned once journal calculated
PFI Contract	Management Accounts to establish the effects on reserves and the budget for these accounting changes	R	A	To be actioned once journal calculated

Pro forma Income and Expenditure Account for a Police Authority

Illustrated Example as per 2009/10 SORP using SPA 2008/09 figures

Income and Expenditure Account for the year ended 31 March 2010

This statement shows income and expenditure incurred by the Authority during the year

Previous Year Net Expenditure £000s	Note	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
254,290	Local Policing Dealing with the Public Criminal Justice Arrangements Road Policing Specialist Operations Intelligence Specialist Investigation Investigative Support National Policing <i>(The above will include seconded officers and Support Functions allocated over the Service Divisions)</i>	309,609	(62,744)	246,865
-	Exceptional costs of legal settlements	-		-
1,383	Corporate and Democratic Core	1,349		1,349
(591)	Non Distributed Costs	2,200		2,200
<u>255,082</u>	Net Cost of Services	<u>313,158</u>	<u>(62,744)</u>	<u>250,414</u>
	84 (Gain)/Loss on disposal of fixed assets			451
	- Levies to national police services			-
	- (Surpluses)/deficits on trading undertakings not included in Net Cost of Services			-
214	Interest payable and similar charges	33i		1,752
	- Investment losses			-
(3,896)	Interest and investment income	34i		(4,115)
76,275	Pensions interest cost and expected return on pensions assets			87,260
<u>327,759</u>	Net Operating Expenditure			<u>335,762</u>
(75,434)	Precepts	2		(79,411)
(13,580)	Home Office grant payable towards the cost of retirement benefits			(17,394)
(104,039)	General government grants	31		(104,865)
(57,678)	Non-domestic rates redistribution			(60,803)
<u>77,028</u>	(Surplus) or Deficit for the Year			<u>73,289</u>