REPORT TO:	**AUDIT SUB COMMITTEE**	**AGENDA ITEM: 10**
DATE OF MEETING:	**23rd JUNE 2011**	**CATEGORY: RECOMMENDED**
		OPEN
REPORT FROM:	**CHIEF EXECUTIVE OFFICER**	
MEMBERS' CONTACT POINT:	**CHIEF FINANCE OFFICER** **KEVIN STACKHOUSE (01283 595811)** Kevin.stackhouse@south-derbys.gov.uk	**DOC**: u/ks/finalaccounts201011/accounting policies/Ctte paper
SUBJECT:	**ACCOUNTING POLICIES 2010/11**	**REF:**
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: AS 05**

1.0 Recommendations

1.1 That the Council's proposed Accounting Policies as set out in Appendix 1 are approved for inclusion in 2010/11 Financial Statements.

2.0 Purpose of the Report

2.1 Under its terms of reference, the Committee is responsible for reviewing and considering proposed changes to the Council's accounting policies. Due to the full implementation of International Financial Reporting Standards (IFRS) for 2010/11, this has necessitated a review and an update of accounting policies. This is to ensure that the Council continues to adopt proper accounting practice.

2.2 IFRS has seen a fundamental change in accounting practice. It is important that the Council complies and makes the appropriate changes where they apply.

2.3 A comprehensive report was provided to the Committee back in June 2010. This provided awareness for the Committee, including background on IFRS. In addition, it provided an update on the Council's position and the proposed actions to ensure that the Council implemented the changes in a timely and correct manner. Further updates were provided in December 2010 and April 2011.

2.4 Those reports focused on issues around capital accounting and meeting requirements to restate the approved accounts for 2009/10 in order for meaningful comparisons to be made. As recommended by the Council's external auditors in their review (April 2010) this paper details the proposed accounting policies required to ensure that the Council implements the requirements of IFRS in a proper manner.

2.5 Links to previous reports are included at the end of this paper in **Section 7**.

3.0 Detail

3.1 IFRS are accounting standards issued by the International Accounting Standards Board. They are designed to ensure a robust and consistent method of accounting. They have been widely accepted in the corporate/private sector for some years, which acted as a catalyst for common standards.

3.2 The 2008 UK National Budget confirmed that IFRS would be implemented across public authorities. The reasons for this were set in the context of the Government's aim to produce "*high value performance data in combination with appropriate financial data*."

3.3 A phased process began in 2007/08 and the Council's current accounting statements reflect some elements of IFRS introduced to-date. Full implementation for local authorities was 1st April 2010. This means that the first set of fully compliant IFRS accounts will be produced in draft, for audit, by 30th June 2011.

3.4 As previously reported to the Committee the main changes are summarised below.

- Treatment of capital grants and contributions
- Structure of financial statements (presentation)
- Segmental reporting (greater detail on services' income and expenditure)
- Non-current assets - property, plant and equipment
- Treatment of property leases
- Accounting for investment properties
- Impairment of assets
- Classification of non-current assets held for sale
- Accounting for employee benefits
- Accounting for associates (group accounts, PFI projects, etc.)

The Council's Position

3.5 With the exception of accounting for associates which does not currently apply to the Council, the other changes have had an impact, albeit in a fairly limited way in a number of cases. Besides restating the accounts for 2009/10 and dealing with presentational issues, the main change relating to the Council is accounting for its assets.

3.6 Changes have been made to asset valuations and how they are reported in the accounts. In particular, there is now a requirement to split values and depreciate parts (or components) of some assets. This has required some changes to the Council's asset management database to record data, together with providing the necessary journals and audit trail for the accounts.

Accounting Policies

3.7 The Council's accounts have now been prepared on an IFRS basis for 2010/11 and will be submitted in draft for external audit on 30th June. Once the accounts and financial statements have been audited, they will be submitted to the Finance and Management Committee at the end of September 2011 in accordance with statutory requirements.

3.8 Prior to that date, the Council's External Auditors will formally report to this Committee. This will include details of their work and findings from the Audit and consequently they will issue their opinion on the accounts and financial statements.

3.9 As part of the accounts preparation, accounting policies have been reviewed and updated to conform to IFRS. The full set of policies is detailed in **Appendix 1.** Subject to consideration by this Committee, these policies will be formally published alongside the Council's accounts.

3.10 The policies set out how the Council treats and deals with its financial transactions. They comply with proper accounting practice and show the "technical" basis on which the accounts have been prepared.

Main Changes

3.11 Generally, the layout and wording has been changed to reflect IFRS. The main areas, where the Council has changed or adopted new accounting practice, are set out below.

Property, Plant & Equipment

Component Accounting

3.12 Where components of an asset are significant in value in relation to the total value of the asset as a whole, and they have substantially different economic lives, they should be recognised separately. There is no requirement to apply these changes retrospectively and instead components are recognised separately as and when they are replaced.

3.13 All asset values will continue to be split between land and buildings. However, the building element is now split into components depending on its size and value. For example, the building value for pavilions has been split between 2 components, i.e. the main structure and services (services being showers, boilers, etc.)

3.14 This is to reflect that they have different economic lives and hence provision for replacement / upgrade is different. Assets such as the Civic Offices are itemised across several components including furniture, fittings, plant and equipment.

3.15 The Council uses the District Valuation Office to independently value the Council's assets in accordance with these IFRS requirements.

Investment Property

3.16 An investment is now defined as a property, which is held exclusively for revenue generation, or for the capital gains that the asset is, expected to generate. In this respect, the asset is not used directly to deliver the Council's services.

3.17 Investment properties are initially measured at cost and thereafter at market value. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance.

3.18 Effectively, there is no significant change for the Council. Its commercial and industrial portfolio continues to be classed as investment property.

Non-Current Assets Held For Sale

3.19 A new classification is now required for valuing non-current assets, i.e. "assets held for sale." (To replace "surplus assets held for disposal"). Assets meeting this classification are those where the value of the asset will be recovered mainly by selling the asset rather than through usage. To be classed as "'held for sale'" the asset must meet the following criteria:

- Be available for immediate sale in its present condition
- Its sale must be highly probable
- The Council expects the sale to take place within twelve months

3.20 This revised definition limits the number of assets in this category. Assets are valued at the lower of their existing balance sheet value or their estimated sale price less any disposal costs.

3.21 Although technical the overall aim of IFRS valuations, is to ensure that authorities identify, value and write down their assets properly and consistently, together with providing sufficient details to the public on how those assets are used (through the classification).

Government Grants & Other Capital Contributions

3.22 Under the previous accounting arrangements, grants received by the Council towards capital expenditure were held in a Government/ Capital Contributions account and written off to Revenue over the life of the asset the grant was used to purchase. Under IFRS, all such grants are to be treated as revenue income as soon as any conditions relating to the grant have been met.

Leases & Lease Type Arrangements

3.23 The land and building elements of a lease of land and buildings require separate identification for both operating and finance lease classification and subsequent valuation. In most cases, the land element of a lease will be an operating lease.

3.24 This has had no further effect on the Council at this stage as the Council does not lease any land or buildings falling under this policy nor does it have any finance leases.

Employee Benefits

3.25 There is a new requirement for the Council to make an accrual in its accounts at year end for any annual leave, flexible working or time off in lieu entitlement earned but not taken by employees at the end of the financial year, to the extent that employees are permitted to carry forward this accrued leave to the following year.

3.26 Although this is not a direct charge on the Council's revenue account at the year end, it is shown as a liability in the Council's balance sheet. This highlights the potential cost to the Council of unpaid time yet to be taken.

3.27 In restating the accounts for 2009/10, this has involved an estimate being made in order for a comparison to be made with the actual figure for 2010/11.

Materiality

3.28 Although not an accounting policy in itself, under IFRS, the Chief Finance Officer needs to determine a materiality threshold for reporting purposes. This figure is used to determine the degree of reporting of the income and expenditure in the accounts.

3.29 Anything above this amount requires additional detail to be provided in the financial statements. This is designed to explain to the readers of the accounts the more significant aspects of the Council's income and expenditure and financial transactions. Previously, detail about individual services was summarised and considered to be very limited.

3.30 The Chief Finance Officer has set this figure at £125,000 for 2010/11. This is based on 1% of the Council's Net Revenue Expenditure as reported to the Council in February 2010 in setting the Budget Requirement and council tax levy for 2010/11.

4.0 Financial Implications

4.1 None directly. The Accounting Policies provide the framework for the accounts and financial reporting.

5.0 Corporate Implications

5.1 As above, there are no direct legal, HR or other resource implications.

6.0 Community Implications

6.1 Implementing IFRS and adopting proper accounting policies, helps to demonstrate a high standard of Corporate Governance, which is a key action in the Council's Corporate Plan.

7.0 Background Papers

7.1 Previous reports to the Committee on implementing IFRS are available at:

http://cmis.south-derbys.gov.uk/CmisWebPublic/Binary.ashx?Document=6735

http://cmis.south-derbys.gov.uk/CmisWebPublic/Binary.ashx?Document=7493

http://cmis.south-derbys.gov.uk/CmisWebPublic/Meeting.aspx?meetingID=1414