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ESPO MANAGEMENT COMMITTEE 24 JUNE 2011

AGENDA ITEM NO. 16

JOINT REPORT OF THE INTERIM DIRECTOR AND CONSORTIUM TREASURER

ANNUAL REPORT AND DRAFT STATEMENT OF ACCOUNTS 2010/11

Purpose of the Report

1. To provide members with an update on the:

   a) amended Accounts and Audit Regulations 2011, and
   b) transition to producing the Statement of Accounts under International Financial Reporting Standards (IFRS) for 2010/11;

   and to present the:

   c) Annual Report 2010/11; and
   d) Draft Statement of Accounts for the financial year 2010/11.

Background

2. The Accounts and Audit Regulations 2011 were amended in March and apply to the 2010/11 Statement of Accounts.

3. The Statement of Accounts for 2010/11 is prepared under the IFRS based code of practice on local authority accounting for the first time. This is part of a wider public sector move to international accounting standards. The NHS and Central Government moved in 2009/10 and listed companies moved in 2005. Local authority accounts were previously prepared in accordance with UK accounting standards and the Statement of Recommended Practice (SORP).

Annual Report 2010/11

4. The Annual Report for 2010/11 is attached as Appendix A.

Accounts and Audit Regulations – Revised 2011

5. The main change is the removal of the requirement for the Statement of Accounts to be formally approved by the Management Committee before the end of June in each year, although they must still be signed by the Consortium Treasurer by that date. Formal approval must now be given by 30th September.

6. The Statement of Accounts for 2010/11 is attached as Appendix B. The Management Committee is required to review the audit opinion on the accounts and any required amendments by 30th September.

7. This change has been introduced to align the approval process more closely with the procedures applying elsewhere in the public and private sectors. It will mean that the Management Committee will now be asked to formally approve the accounts after, rather than before, the findings of the audit are known. The Consortium Treasurer is reviewing the terms of reference of the committee to agree a new process for the approval this year.

8. Other changes in the updated regulations include a requirement for the Annual Governance Statement (AGS) to accompany the Statement of Accounts, rather than to be included with the Statement of Accounts. The change in wording is to make it clear that the AGS is separate from the Statement of Accounts for the purpose of external audit. The Council has discretion to decide whether it should be part of the same document or be issued as a separate document. Rather than producing two publications, the Consortium Treasurer intenda to continue to publish one document, clearly identifying that these are separate statements.

<u>IFRS Transition and IFRS Accounts 2010/11 - Update</u>

9. The first set of IFRS based accounts is 2010/11. These will need to be completed by 30th June 2011, the same as in previous years.

10. On first time adoption, IFRS requires the previous UK SORP based 2008/9 balance sheet and 2009/10 Statement of Accounts to be restated on an IFRS basis to provide comparative figures.

11. A substantial amount of work has been completed to ensure that the 2010/11 Statement of Accounts is IFRS compliant. This includes:

    - Establishment of a project team and project lead officer.
    - An impact assessment completed by our external auditors, PricewaterhouseCoopers, which considered the impact on systems, staff and resources and helped focus work on the key areas requiring attention,
    - Review and the application of relevant accounting standards and the CIPFA IFRS based Code of Practice,
    - Technical advice and training from PwC to help understand and implement the changes required,
    - Regular review with PwC of progress and discussion of issues, including interim audit in March 2011.
    - Completed the restatement of the 2008/9 and 2009/10 comparative accounts, subject to the reassessment of the employee lease car scheme and additional sampling for employee holiday pay accrual.

    <u>The main changes for ESPO are:</u>

12. A new presentation for the Primary Statements – summarised below:

IFRS	Contains	SORP Equivalent
Movement in Reserves Statement (MIRS)	Shows all movements in usable and unusable reserves. Key statement showing movement of the General Fund for the year.	Statement of Movement on the General Fund Balance (SMGCFB)
Comprehensive Income & Expenditure Statement (CIES)	Shows the Surplus/Deficit on the provision of services. Combines the SORP I&E and STRGL.	Income and Expenditure Account (I&E) Statement of Total Gains and Losses (STRGL)
Balance Sheet	Shows the total assets and liabilities of the organisation. Presentational changes to the SORP including new headings	Balance Sheet
Cash Flow Statement	Shows the cash flows in/out of the organisation – presentational changes to the SORP	Cash Flow Statement

13. **Property, Plant and Equipment (PPE)** – this is the new IFRS name for fixed assets. IFRS has an increased emphasis on component accounting compared with the SORP – this recognises that an asset may include different components with different useful economic lives and should be depreciated and valued separately. The Asset Register has been reviewed to ensure that this requirement is met. Other changes include a stricter definition of when surplus assets are categorised as held for sale (where they are being actively marketed and expected to sell within 12 months). This work has been completed.

14. **Leases** – there is a stricter definition of what constitutes an operating lease as opposed to a finance lease. The previous tests have been replaced with a combination of eight harder tests meaning that some leases previously accounted for as an operating lease will need to be restated as a finance lease. Finance leases are required to be recognised as an asset on the balance sheet matched by a liability to pay the lease payments. The asset is then subject to regular valuations, depreciation and capital financing, although statutory regulations have been implemented to reverse out any financial effect. The review of all significant leases (greater than £5,000 individual assets) including property, vehicle and equipment has been completed.

15. **Employee Benefits** – IFRS requires the cost of annual leave not taken by the year end to be accrued as a liability on the balance sheet. This affects all employees and was extracted from HR records for 2008/9, 2009/10 and 2010/11 and calculated using individual employee rates of pay for 2008/9 and 2009/10. The same 2009/10 average pay rates by division were used in 2010/11 as pay scale did not change. A full recalculation will be undertaken every two years, the next being in 2011/12. As part of the IFRS changes, ESPO has implemented a consistent annual leave year for all employees across the organisation to coincide with the financial year. Prior to this the leave year ended in May. Accounting regulations have been introduced to ensure the accrued charge is not passed on to customers.

16. **Cash and Cash Equivalents** – IFRS has extended the definition of cash on the balance sheet to also include short term highly liquid investments that are readily convertible to known amounts of cash. Using the CIPFA guidance short term deposits of less than 3 months have been reclassified as cash equivalents on the balance sheet. For 2008/9 this amounts to £6.4m and for 2009/10 £1.8m.

17. **Notes to the Accounts** – IFRS requires a greater level of supporting notes to assist the readers of the accounts compared with the SORP. Significant new notes will include where relevant extended balance sheet disclosures for creditors and debtors, summary details of the total costs of the termination of employee contracts during the year, assumptions made about the future in terms of estimates in the accounts, estimates of the impact of accounting standards that have been issued but not yet adopted, and a segmental analysis note. This latter note reconciles the differences between the management reports on which ESPO budget and Management Accounts are reported to Committee compared with the totals shown in the CIES which is prepared on a different basis. Differences include 'below the line' entries such as depreciation, impairment, holiday pay accrual and finance lease adjustments.

18. This work has now been completed. The first set of IFRS 2010/11 accounts is attached.

Recommendations

19. The Management Committee is asked to:-

(a) Note the change to IFRS accounting standards to 2010/11.

(b) Approve the Annual Report 2010/11, and

(c) Note the draft Statement of Accounts for 2010/11.

Resources Implications

None.

Equal Opportunities Implications

None.

Background Papers

None.

List of Appendices

Appendix A – Annual Report 2010/11
Appendix B – Draft Statement of Accounts 2010/11

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