Audit and Governance Meeting **27 September 2013**

Item 7 - Statement of Accounts 2012/2013 – Appendix A

International Financial Reporting Standards (IFRS) – Summary

Introduction

- Implemented from1st April 2010 (as instructed by the government) and represented a significant change in the way local authorities
- present their Statement of Accounts
- This year is the third set of accounts that are IFRS compliant (2012/2013, 2011/2012 and 2010/2011)
- The changes to IFRS have generally made the accounts more technical and complex and as a result generally more difficult to understand.

Presentational Changes

Previous Format of Accounts	IFRS Format	Pages
Income & Expenditure Account (I&E) Statement of Recognised Gains and Losses (STRGL)	Now both included in the Comprehensive Income and Expenditure Statement	28 / 29
Statement of Movement in General Fund Balance (SMiGFB)	Movement in Reserves Statement (MiRS) - (General Fund movement and all other reserves)	26 / 27
Balance Sheet (detailed)	Balance Sheet (simplified)	30
Cash Flow Statement (detailed)	Cash Flow Statement (simplified)	31
Notes to the Accounts (not prescribed and in any order)	Notes to the Accounts prescribed order and now includes the main Accounting Policies (much more complex)	32/113
Collection Fund Account and notes	Collection Fund Account and notes	114
Glossary	Glossary (no change)	118

Summary of main changes (but the accounts are now much more complex and technical in content)

1. Accrual for Employee Benefits included
2. Property Leases – Land / Buildings now separately valued in the accounts
3. Definition of leases has changed – more operating leases becoming finance leases (on Balance Sheet when previously treated as revenue ‘rental hire’ expenditure).

4. Government grants recognised as income when they become receivable. The Government Grants Deferred A/c on the Balance Sheet is not now required and accounting treatment has changed.
5. Investment property more stringent criteria applied – must be solely held for capital appreciation / rental income purposes
6. Assets held for sale - must be being actively marketed or sale is imminent – Council does not have any of these currently.
7. Componentisation of assets required to recognise different asset lives in the accounts – covered in more detail below
8. Segmental reporting – new requirement, accounts more aligned to the financial reporting structure of the Authority
9. Some major changes included that were already made in previous accounting years (e.g. Financial Instruments and PFI) which helped phase in the more complex IFRS requirements earlier.

Pensions Accounting

FRS17 now IAS19 – only minor changes to reporting requirements, however, – major change is the change in valuing benefits using CPI rather than RPI – (a lower cost option) which had a significant impact on the accounts in 2010/2011. Small variations in factors used by the Actuary have large implications of the figures included in the accounts. Pension deficit stands at almost £641m at 31.3.13 (compared to almost £589m at 31.3.12). The main reason for the variation is the value placed by the Actuary on net Actuarial Losses which accounts for almost £49m of the change in the Pensions Reserve value. More details are set out in notes 24d and 44 of the accounts.

Component Accounting

Analysis and accounting for assets into their component parts e.g. infrastructure heating system, roof etc. but only where material – but which recognises that different elements of an asset will be used within varying time periods.

Also prospective in nature - applies only to new assets acquired from 1.4.11 and those re-valued each year – but this reflects a more accurate use of assets in the accounts as different components are depreciated having different asset lives – so is helpful in the management and use of assets and in making investment decisions in the future.

<u>Finance Officer Foreword</u>
An essential summary to the accounts, which includes all of the key messages for information, to the reader of the accounts, from the Executive Director of Commercial and Corporate Services in his capacity as Section 151 Officer to the council (the Council's Finance Officer). **(Pages 6 to 17)**

Key messages

- 2012/2013 budget included £28m worth of savings to meet the reduced level of government funding which have been mainly achieved through the Council's Improvement Agenda which has achieved significant reductions to budgets (mainly back office functions) whilst still meeting needs and protecting front line services as far as possible.
- Council Tax was also frozen for 2012/13 so Sunderland still has the lowest in Tyne and Wear and in all of the North East Region
- The Council has a number of outstanding equal pay claims from staff who are seeking financial redress in respect of periods where unequal pay is alleged to have been applied by the Council. The majority of claims have been stayed by the Employment Tribunal to allow settlement discussions to take place. A significant number of the claims have been settled, with efforts ongoing to settle the remainder of the stayed cases.
- The airport undertook a refinancing of their existing debt portfolio in November 2012 in advance of the current agreements reaching their term in December 2013 in order to achieve a more cost effective outcome. The overall level of debt secured from commercial banks to refinance the airport however was lower than previously obtained, as a consequence of the prevailing difficult economic and financial climate. This position represented an opportunity for the local authority shareholders to inject additional shareholder funds into the Airport to support the refinancing on a more commercial funding basis. As such the council approved the use of internal resources in the year which has been reflected in the accounts and it is envisaged that income receivable over the course of the 20 year financing period will more than cover the Council for the funds of almost £14.6m utilised in this transaction, (on a worst case scenario basis), and that the transaction is expected to be at least revenue neutral over the term of the loan notes provided.

  The value of the council's shareholding has increased form £0.795m to £16.400m based upon the open market share valuation which was derived from information resulting form the fact that on 16th November 2012, Copenhagen Airports A/S sold its 49% shareholding to AMP Capital Investors.
- The Council continues to be well managed and has a healthy Balance Sheet in comparison to most other councils
- Outlook for government funding remains very challenging with further known funding reductions in 2013/14 of £37m and more reductions in 2014/15 and beyond.

Handout – Appendix E

The handout (based on a CIPFA document ‘IFRS – How to tell the story’) along with the draft accounts – sets out more details of the changes brought about by IFRS and how the accounting statements now look. The Council’s figures are used so that it helps with understanding the format of the accounts and the key messages they provide under IFRS accounting standards.

This also includes a Question and Answer sheet on IFRS to help explain the format of the accounts.