

## Audit and Governance Meeting – 29<sup>th</sup> June 2012

### Item 16 - Statement of Accounts 2011/2012 (Subject to Audit) – Appendix 1

#### International Financial Reporting Standards (IFRS) – Summary

##### Introduction

- Implemented from 1<sup>st</sup> 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 second set of accounts that are IFRS compliant (2011/2012 and 2010/2011)
- The 2009/2010 account also had to be converted into IFRS compliant accounts so that 2010/2011 accounts had comparative information.
- The changes to IFRS have made the accounts more technical and complex and as a result generally more difficult to understand.

##### Presentational Changes

<u>Previous Format of Accounts</u>	<u>IFRS Format</u>	<u>Pages</u>
Income & Expenditure Account (I&E) Statement of Recognised Gains and Losses (STRGL)	Now both included in the Comprehensive Income and Expenditure Statement	30 / 31
Statement of Movement in General Fund Balance (SMiGFB)	Movement in Reserves Statement (MiRS) - (General Fund movement and all other reserves)	28 / 29
Balance Sheet (detailed)	Balance Sheet (simplified)	32
Cash Flow Statement (detailed)	Cash Flow Statement (simplified)	33
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)	34 / 119
Collection Fund Account and notes	Collection Fund Account and notes	120
Glossary	Glossary (no change)	124

##### 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 £589m at 31.3.12 (compared to almost £437m at 31.3.11). The main reason for the variation is the value placed by the Actuary on net Actuarial Losses which accounts for almost £154m of the change in the Pensions Reserve value. More details are set out in notes 23d and 37 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.

## **Finance Officer Foreword**

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 16)**

### **Key messages**

- 2011/2012 budget included £57.8m worth of savings to meet the reduced level of government funding which were achieved through the Council's Improvement Programme (£26.4m), savings on debt charges (£6.7m) and significant reductions to budgets (mainly back office functions) thereby protecting front line services to the public
- Council Tax was also frozen for 2011/12 so Sunderland still has the lowest in Tyne and Wear and all of the North East Region
- As a result of rigorous financial management and cost containment the Council bolstered its Strategic Investment Reserve by £11.6m in 2011/12 which will be needed to meet potential one –off transitional costs arising from implementation of budget savings for 2012/13 and future years.
- Through prioritisation of investment in growth and regeneration the Council still managed to maintain a high level of capital works with delivery of a programme worth around £57m in 2011/12 to help improve the local economy and job creation in Sunderland. The Council has also been successful in securing government backing for the New Wear Bridge project. The priority for investment in regeneration is reflected in the Capital programme for future years.
- Council continues to be well managed and has a healthy Balance Sheet in comparison to most other councils
- Outlook for government funding is quite bleak with further known funding reductions in 2012/13 of £28.1m with more reductions in 2013/14, 2014/15 and beyond. Due to worsening economic landscape more reductions are now expected in the next parliament - according to the Chancellor, (in summary the cuts are deeper and for longer)
- Further significant reforms in local government finance will also bring with them further challenges in both administration and probably additional reduced funding.

### **Handout – Appendix 2**

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.