Audit Committee – 24th February 2011

10. Accounting Policies for 2010/11 Statement of Accounts

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Purpose of the Report

To request that members of the Audit Committee approve the Accounting Policies for 2010/11 so that the Statement of Accounts 2010/11 can be prepared on this bases.

Recommendation

That members approve the Accounting Policies, paying particular attention to the key accounting policy changes as a result of moving towards International Financial Reporting Standards.

Background

It is a statutory requirement for all local authority financial statements to be IFRS compliant by 2010/11. In order to prepare IFRS compliant accounts by 2010/11, the Council needs to revise its accounting policies.

The introduction of IFRS will significantly change the way that local authority accounts are prepared and a large number of areas will be subject to different accounting treatments. The proposed Accounting Policies are attached in Appendix 1 (pages 66-82).

Key Accounting Policy Changes

The key accounting policy changes impacting on the Council are outlined below:

Property, Plant & Equipment

- **Component Accounting**

  IFRS places a greater emphasis on component accounting. 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 should be recognised separately as and when they are replaced.

- **Investment Property**

  Under IFRS, investment property is defined as a property that 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. Investment properties are initially measured at cost and thereafter at market value.

- **Non-Current Assets Held For Sale (new)**

  Assets meeting this classification are those where the value of the asset will be recovered through selling the asset rather than through usage. To be classed as such the asset must meet the following criteria:

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

  Assets held for sale are to be valued at the lower of their existing balance sheet value or their estimated sale price less costs to sell.

Government and Grants & Other Capital Contributions

Under the current SORP arrangements, grants received by the Council towards capital expenditure are 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

Leases can be classified as either finance or operating leases. If a lease transfers substantially all the risks and rewards incidental to ownership it will be classified as a finance lease regardless of its legal form.

For assets leased under a finance lease, the asset value should be recognised as either an asset or a liability in the Balance Sheet as appropriate and the annual payments consist of an amount of interest plus an amount to clear the relevant debtor or creditor. Leases that do not meet the definition of finance leases are accounted for as operating leases and the income or expenditure is either credited, or charged to, service revenue accounts on a straight-line basis over the term of the lease

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

Employee Benefits

A new requirement under IFRS is that the Council must make an accrual in its accounts at year end for any annual leave and flexible working entitlement earned but not taken by employees at the end of the financial year.

Financial Implications

There are no financial implications in accepting this report and the associated recommendations.

Background Papers: *Audit Committee – 28th January 2010 - Preparation of 2010/11 Statement of Accounts and IFRS*
Audit Committee – 27th January 2011 - Preparation of 2010/11 Statement of Accounts and IFRS
Statement of Accounts 2008/09
Statement of Accounts 2009/10