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12 January 2011

S U M M O N S

MEETING: Standards and Governance Committee
DATE: 20 January 2011
TIME: 6.00 p.m.
PLACE: Committee Room 1, Town Hall, Gosport
Democratic Services contact: Chris Wrein

LINDA EDWARDS
BOROUGH SOLICITOR

MEMBERS OF THE COMMITTEE

Mr R V Perry
(Independent Member)
(Chairman)

Mr G A Lidgley
(Independent Member)
(Vice-Chairman)

Councillor Burgess
Councillor Chegwyn
Councillor Forder

Councillor Kimber
Councillor Scard
Councillor Wright

FIRE PRECAUTIONS

(To be read from the Chair if members of the public are present)

In the event of the fire alarm (single continuous sound) being activated, please leave the room immediately.

Proceed downstairs by way of the main stairs or as directed by GBC staff, follow any of the emergency exit signs. People with disability or mobility issues please identify yourself to GBC staff who will assist in your evacuation of the building.

IMPORTANT NOTICE:

- If you are in a wheelchair or have difficulty in walking and require access to the Committee Room on the First Floor of the Town Hall for this meeting, assistance can be provided by Town Hall staff on request

If you require any of the services detailed above please ring the Direct Line for the Democratic Services Officer listed on the Summons (first page).

NOTE:

- i. Councillors are requested to note that, if any Councillor who is not a Member of the Committee wishes to speak at the meeting, then the Borough Solicitor is required to receive not less than 24 hours prior notice in writing or electronically and such notice shall indicate the agenda item or items on which the member wishes to speak.
- ii. Please note that mobile phones should be switched off for the duration of the meeting.

AGENDA

RECOMMENDED
MINUTE
FORMAT

PART A ITEMS

1. APOLOGIES FOR NON-ATTENDANCE

2. DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter, any personal or personal and prejudicial interest in any item(s) being considered at this meeting.

3. MINUTES

To approve as correct records the Minutes of the Committee meetings held on 4 and 29 November 2010 (copies attached).

4. DEPUTATIONS – STANDING ORDER 3.5

(NOTE: The Committee is required to receive a deputation(s) on a matter which is before the meeting of the Committee provided that notice of the intended deputation and its object shall have been received by the Borough Solicitor by 12 noon on Tuesday, 18 January 2011. The total time for deputations in favour and against a proposal shall not exceed 10 minutes).

5. PUBLIC QUESTIONS – STANDING ORDER 3.6

(NOTE: The Committee is required to allow a total of 15 minutes for questions from Members of the public on matters within the terms of reference of the Committee provided that notice of such Question(s) shall have been submitted to the Borough Solicitor by 12 noon on Tuesday, 18 January 2011).

6. IFRS (INTERNATIONAL FINANCIAL REPORTING STANDARDS) UPDATE

Part II

To provide an update on progress towards the adoption of International Financial Reporting Standards (IFRS).

Contact Officer:
John Norman
Ext 5316

7. GOVERNANCE IMPROVEMENT ACTION PLAN MONITOR

Part II

To update the Committee regarding progress with the ongoing programme of governance improvements.

Contact Officer:
Peter Wilson
Ext 5301

8. ANY OTHER ITEMS

-which by reason of special circumstances the Chairman considers should be considered as a matter of urgency

Standards and Governance Committee
20 January 2011

Agenda item no 6

Board / Committee:	STANDARDS AND GOVERNANCE COMMITTEE
Date of meeting:	20 JANUARY 2011
Title:	IFRS (INTERNATIONAL FINANCIAL REPORTING STANDARDS) UPDATE
Author:	FINANCIAL SERVICES MANAGER
Status:	FOR NOTING

Purpose

To provide an update on progress towards the adoption of International Financial Reporting Standards (IFRS).

Recommendation

The Committee notes the progress made to date towards compliance with IFRS and the remaining work to be completed.

1.0 BACKGROUND

- 1.1 The Council is required to prepare its Annual Statement of Accounts using specific disclosure and accounting requirements. From 2010/11 these requirements are moving away from a UK specific basis (UK Generally Accepted Accounting Principles - UKGAAP) to International Financial Reporting Standards (IFRS).
- 1.2 A briefing paper was included in the Approval of Accounts Report to P&O Board in June 2010. This report to S&G Committee provides an update on the Council's progress to date towards preparing IFRS compliant accounts for 2010/11 by 30 June 2011.
- 1.3 The main areas of change are considered below.

2.0 THE MAJOR ISSUES

2.1 RE-STATEMENT OF FINANCIAL STATEMENTS

IFRS must be introduced retrospectively. Authorities have to account as if they had always followed the IFRS rules, and this will mean replacing the previous accounting entries with entries that would have been relevant had IFRS always applied.

Under IFRS it is a requirement that the 2009/10 comparative figures are restated on an IFRS basis. Both the opening (1 April 2009) and closing (31 March 2010) balance sheets for the 2009/10 year are to be recalculated, re-audited and included the 2010/11 Statement of Accounts as part of the adoption of IFRS in 2010/11.

2.2 FORMAT OF THE ACCOUNTING STATEMENTS

The changes below relate to the formal accounting statements that are key parts within the annual Statement of Accounts that is approved by P&O Board every year and that is subject to external audit.

Movement in Reserves Statement – a new ‘Movement in Reserves Statement’ will replace the existing ‘Statement of Movement on the General Fund Balance’.

Comprehensive Income and Expenditure Statement – this new statement will replace the ‘Income and Expenditure Account’ and the ‘Statement of Total Recognised Gains and Losses’

Balance Sheet & Cash Flow Statements – these statements continue under the new IFRS Code but the formats will change. This includes the introduction of ‘cash and cash equivalents’ in both statements, replacing the previously reported item of ‘cash’

In summary, the table below summarises how the existing main statement pages are shown under IFRS.

SoRP Accounting Statement	IFRS Accounting Statement
Income & Expenditure Account	Comprehensive Income & Expenditure Account
Statement of Movement on the General Fund Balance	Statement of Movement in Reserves
Statement of Total Recognised	Split between Comprehensive Income

Gains and Losses	& Expenditure Account and Statement of Movement in Reserves
Balance Sheet	Balance Sheet

Preparation of these core IFRS accounting statements has been started

Disclosure Requirements - A significant number of additional disclosure requirements. These include

- Segmental reporting – the provision of a detailed breakdown of the financial information presented to Councillors as part of day to day financial management together with a reconciliation of how this relates to the primary financial statements.
- The inclusion of three balance sheets in the Statement of Accounts for 2010/11 (ie at 1 April 2009, 31 March 2010 and 31 March 2011).
- Significant extra reporting on lease commitments, both as lessee and lessor.

The experience of other government bodies is that the disclosure requirements that back up the primary financial statements will become significantly more onerous, particularly in the year of transition. (It has been said that the Statement of Accounts could be twice the current size and no easier to digest)

Preparation of the additional disclosure requirements has not yet been started

2.3 IMPACT ON COUNCIL TAX

One of the primary concerns is interpreting IFRS, particularly with restating previous transactions, is the need to ensure that Council Tax levels remain unaffected. This is achieved by a mix of legislation and provisions in the new code.

2.4 ACCOUNTING POLICIES

The Council's Accounting Policies are one of the primary financial statements – they convey the principles and concepts which underpin the Council's accounts.

Although most of the Statement of Accounts is prepared in accordance with statutory guidelines, it is necessary for the Council to make decisions on the treatment of certain transactions. The Code has additional requirements both for making and disclosing Accounting Policies.

This work is to be started.

2.5 LEASES

IFRS requires all lease and 'lease type' arrangements in which the Council has an interest (i.e. both as lessee and lessor) to be reviewed to ensure that the substance of transactions is properly reflected in the accounts.

Evidence will be required to establish whether each lease is either classed as an operating or finance. The key principle against which to assess the lease is where the risks and rewards of the assets lie, regardless of the legal arrangements of a contract.

Mitigating legislation has been passed to nullify any impact on the Council Tax resulting from re-categorised leases.

An examination of lease and lease type arrangements is underway.

2.6 FIXED ASSETS

Method of Valuation

IFRS requires that certain assets have to be valued differently and in some cases more regularly. This requires an initial exercise in examining the fixed asset register, looking at asset classifications and amending this where necessary, identifying those that need (re) valuing – both as regards the basis and frequency, undertaking valuations and accounting for these as necessary - retrospectively to 1 April 2009 and then from 2010/11 onwards. More information relating to changes in the capital value of assets will be recorded in the revenue account.

Component Accounting

Where components of an asset are significant in cost in relation to the total cost of the asset and they have substantially different useful economic lives, they should be recognised separately. This is effective from April 2010 and so there is no requirement to apply these changes retrospectively. Accounting policies as to thresholds and de-minimus levels are to be agreed.

Investment Properties

Investment properties are more narrowly defined under IFRS with all changes in valuations being initially posted to revenue prior to being reversed out. Investment properties may be required to be re-valued annually.

An evaluation of assets and leases is underway

2.7 EMPLOYEE BENEFITS

IFRS requires that untaken leave and flexi-time is accounted for at year end. This requires a calculation of the sum involved followed by an accrual in the accounts and an offsetting transfer to a new reserve so that there is no impact on Council Tax.

An evaluation of employee benefits is nearing completion

2.8 CAPITAL GRANTS

Under the current arrangements, once capital grants are received and applied they are held on the balance sheet and are then written off to the Income and Expenditure Account over the life of the assets that the grant was used to finance.

Under IFRS all grants and contributions that do not have conditions attached to them are fully accounted for in the year they are received. This forces close attention to associated terms and conditions as well as an examination of grants held on the balance sheet at 31 March 2009.

An evaluation of capital grants is underway

3.0 TIMETABLE

Although the first IFRS compliant accounts do not have to be presented until 30 June 2011, there is a considerable amount of work which needs to be done in the meantime.

The IFRS Code was released in January 2010 and the detailed guidance for practitioners was received on Christmas Eve 2010. A considerable industry has evolved through professional websites, seminars, consultants etc in both interpreting and providing support for IFRS adoption.

4.0 RISK MANAGEMENT

4.1 The main risks are against capacity and expertise

- Internal resources are being used to deliver the IFRS agenda – primarily through a few key staff with others assisting as necessary. This is an addition to existing workloads. The CIPFA practitioners guidance was received on 24 December.
- IFRS has a steep learning curve and although a ready external market of consultants and agencies exists, the development and retention of in house expertise is considered to be very important .
- The next three months are critical as the 2010/11 financial year closes and the final accounts process formally begins. It is essential that key officers are freed as much as possible to focus on interpreting the code requirements and undertaking the preparatory work.

4.2 Some finance system amendments (ie coding and reporting) will be necessary

5.0 CONCLUSION

- 5.1 All local authorities are required to prepare accounts under International Financial Reporting Standards for the 2010/11 financial year.
- 5.2 While a considerable amount of work remains to be completed, it is anticipated that the Council will present an IFRS compliant set of accounts to P&O Board in June 2011.

Financial implications:	None from this report
Legal implications:	None from this report
Service Improvement Plan implications:	The adoption of International Financial Reporting Standards is a mandatory requirement for all local authorities
Corporate Plan	
Risk Assessment	As contained in section 4 of the report
Background papers:	None
Appendices:	None
Report Author:	John Norman

AGENDA ITEM NO. 7

Board/Committee:	STANDARDS & GOVERNANCE COMMITTEE
Date of Meeting:	20 JANUARY 2011
Title:	GOVERNANCE IMPROVEMENT ACTION PLAN MONITOR
Author:	DEPUTY CHIEF EXECUTIVE & BOROUGH TREASURER
Status:	FOR APPROVAL

Purpose

To update the Committee regarding progress with the ongoing programme of governance improvements.

Recommendation

It is recommended that the Committee note the report and agree that further formal monitoring reports will not be required.

1 Background

- 1.1 The new Government has abandoned Comprehensive Area Assessments and the associated inspection regime. Future work by our external auditors is likely to focus on traditional financial considerations and "Value for Money".
- 1.2 In view of this new approach the Committee agreed that future improvement work will concentrate Gosport's limited resources on those areas considered to be a local priority.

2 Report

- 2.1 The action plan for governance improvements approved by the Committee last July is progressing more slowly than originally anticipated, although all actions are likely to be completed by the end of March 2011 except the Workforce Development Plan.
- 2.2 It is clear that many of the agreed improvements are now considered to be lower priority than originally envisaged when first discussed with our external auditors and new issues such as the transparency agenda and extreme budget pressures are having a very significant effect on the resources available to devote to the improvement plan.
- 2.3 It is considered that the remaining planned improvements can be achieved within existing resources over the amended timescale set out in the appendix.
- 2.4 In future identified governance issues will be dealt with on an ad-hoc

basis and routine reporting done through the existing internal audit updates.

3 Risk Assessment

- 3.1 There could be financial risks associated with failure to improve financial awareness, financial management and financial systems. These cannot be specifically quantified but are considered in the Council's Statement of Internal Control.

4 Conclusion

- 4.1 The significant reduction in external inspection implemented by the new Government allows the Council the opportunity to use its limited resources to focus on the areas of governance considered most important for further improvement.
- 4.2 An action plan has been prepared against which further improvements are being monitored.
- 4.3 In view of the progress achieved to date , restricted resources and new priorities further regular formal reports and action plans are to be discontinued.

Financial Services comments:	If approved, officer time can be redirected to dealing with other priorities.
Legal Services comments:	None.
Service Improvement Plan implications:	SIP actions all on course.
Corporate Plan:	Pursuit of Excellence priority.
Risk Assessment:	See para. 3.
Background papers:	None
Appendices/Enclosures:	
Appendix 'A'	Governance Improvement Action Plan
Report author/ Lead Officer:	Peter Wilson x5301

GOVERNANCE IMPROVEMENT ACTION PLAN

IMPROVEMENT	OFFICER	TARGET DATE	PROGRESS
Improve the availability of Value for Money information to Managers and in Board reports in order to assist decision making	FSM/HoA	March 2011	Initial work has commenced. Opportunities being taken as they arise
Extend the Annual Report data that is made available on the Council's website	DCX	February 2011	Preparatory work completed. Editing now required
Review & update the Workforce Development Plan	HoP	2011	Almost complete, work currently suspended due to other pressures
Arrange additional awareness training opportunities for elected members, particularly in the areas of Risk, Procurement and Treasury Management	FSM	February 2011	Final session(s) imminent
Extend the matrix used to ensure that all statutory and essential considerations are made when Board reports are prepared	DCX/BS	March 2011	Initial work has commenced
Complete an appropriate level of governance documentation in support of all key partnerships (eg memorandum of understanding)	HoARM	March 2011	In progress. Pilot project complete

KEY	
FSM	Financial Services Manager
HoARM	Head of Audit & Risk Assurance
HoA	Head of Accountancy
DCX	Deputy Chief Executive
BS	Borough Solicitor
HoP	Head of Personnel