

BABERGH DISTRICT COUNCIL

FROM: Director of Finance

REPORT NUMBER: **J171**

TO: OVERVIEW AND SCRUTINY
(STEWARDSHIP) COMMITTEE

DATE OF MEETING: 26 January 2010

THE 2009/10 ACCOUNTS AND TREASURY MANAGEMENT

1. PURPOSE OF REPORT

- 1.1 To advise Members on developments on some key issues that will require the additional input and involvement of the Committee to ensure that these are managed in a pro-active and effective manner.

2. RECOMMENDATIONS

- 2.1 That Members note the requirements and proposed approach to dealing with the changes to the 2009/10 Accounts and that the future scrutiny of Treasury Management activities will be the responsibility of this Committee.
- 2.2 That Members attend a workshop and receive additional guidance on the key aspects of these requirements to ensure they are well equipped to deal effectively with them as part of this Committee's Audit Committee role.

The Committee is able to resolve these matters.

3. FINANCIAL IMPLICATIONS

- 3.1 None directly.

4. RISK MANAGEMENT

- 4.1 The report relates to Significant Business Risk No.7 – Financial, Performance and Risk Management. Key risks are set out below:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
IFRS not properly reflected in the Council's accounts	Significant	Critical	Project Plan developed and being implemented with external support to ensure all aspects are dealt with in a timely manner.

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Members are insufficiently equipped to deal effectively with changes to the accounts and scrutinise Treasury Management activities.	Significant	Marginal	Workshop and guidance to be provided to Members.

5. Key Supporting Information

Background

- 5.1 The annual financial statements of Government departments and other entities in the public sector are currently prepared using accounting policies based on UK Generally Accepted Accounting Practice (UK GAAP). It was announced in the 2007 Budget that the accounts will be prepared using International Financial Reporting Standards (IRFS) adapted as necessary for the public sector.
- 5.2 Subsequently the 2008 Budget announced a delay in the timetable for central government and the NHS, as well as for Whole of Government Accounts (WGA). The first year of transitional implementation is for 2009/10. However, the date for full implementation in local government remains at 2010/11.
- 5.3 This means that the introduction of IFRS in local government is to be phased over two years – 2009/10 and 2010/11 – as follows:
- 2009/10 – Whole of Government Accounts (WGA) to be prepared in accordance with IFRS. Preparation of the 2009/10 Balance Sheet in accordance with IFRS and restatement of comparative figures for 2008/09. Additional disclosure requirements for 2009/10 and a review of the Statement of Accounting Policies to ensure all new requirements are met
 - 2010/11 – full adoption – the Council’s Statement of Accounts to be prepared in full compliance with IFRS, including the restatement of 2009/10 comparative figures.
- 5.4 On Treasury Management, a new Framework has been issued after the turmoil in the financial markets during the “credit crunch” that started in 2008 and the ensuing issues relating to Icelandic Banks. This focuses attention on a range of treasury management practices and, in particular the assessment of the credit standing of the counterparties with whom local authorities transact their treasury business. National reports produced by the Audit Commission and the Communities and Local Government Committee recommended that certain elements of the Treasury Management Code for local government and the associated guidance notes should be reviewed.

Impact on Babergh

5.5 The impact on individual authorities of IFRS will vary widely depending on local circumstances. The following areas have been identified as relevant to all local authorities:

- Presentation of accounts √√
- PFI *
- Leases √√
- Property, plant and equipment (fixed assets) √√
- Investment properties *
- Infrastructure assets √
- Intangible assets √
- Employment benefits √
- Segmental reporting √√
- Cash flow statements √
- Income recognition √
- Grants and government assistance √
- Group accounts *

√ Areas considered relevant to BDC accounts.

√√ Areas considered of greater impact and work.

* Areas considered not currently relevant to BDC but subject to review as necessary.

5.6 On Treasury Management, the key changes are that:

- The minimum reporting requirements to the full council now include a mid-year review in addition to approving the annual strategy and annual review reports;
- The Council must nominate a body (the Overview & Scrutiny Committee is the appropriate Committee) to be responsible for ensuring the effective scrutiny of treasury management strategy and policies. This nomination will be incorporated in the Budget report.

Managing the Transition - IFRS

5.7 Local authorities are required to prepare IFRS compliant accounts for 2010/11 with full comparative data. This means authorities will need to be able to restate their opening balance sheet as at 1 April 2009 in IFRS form, which involves a fairly significant amount of work.

5.8 IFRS imposes significant additional reporting and disclosure requirements which mean collection and collation of additional or new data, some of which is currently not readily available. In some instances these may require changes to the existing systems or indeed setting up new systems to capture and record the required information.

5.9 The planning and resource implications of the transition to IFRS need careful management to ensure implementation, systems, reporting and ongoing compliance are dealt with effectively. Where possible, we will be seeking to apply a materiality test to the key areas of transactions.

5.10 A project team has been set up including key members of Corporate Finance and Contract & Asset Management. The project is being managed in conjunction with staff from Suffolk County Council who, in conjunction with joint working with Mid Suffolk DC, are providing support to deliver the required outcomes. This has given Babergh the opportunity to share a number of templates, documentation and audit experiences which will support the quality assurance aspect of information that will need to be provided to the council's auditors.

5.11 There has been a great deal of preparatory work already undertaken and is ongoing, which involves the following:

- Assessing those areas of work that have been identified as having the most impact on the Council's accounts.
- Providing Technical Papers detailing proposed accounting treatment of specific areas of work to the Council's auditors. This is to ensure the auditors are given sufficient time to assess, comment and agree the accounting treatment.
- Reviewing the financial asset register to ensure that the systems is "fit for purpose" and can provide appropriate information under IFRS on an ongoing basis.
- Restating the opening balance sheet as at 1st April 2009 using the templates provided.
- Preparation of the 2009/10 accounts in line with the new requirements
- Embedding these processes to ensure the requirements will be met year on year
- Assessing training requirements to ensure staff and members are fully equipped to meet the requirements.

Treasury Management

5.12 The Treasury Management Strategy should include a Treasury Management Policy Statement which states the policies and objectives and the approach to risk management. (The definition of treasury management has been amended to include "investments").

5.13 Also, details of the Treasury Management Practices adopted, detailing the manner in which the Council will achieve the policies and objectives and prescribing how it will manage and control these activities, have to be set out.

5.14 These will be presented to Strategy Committee and Council as part of the Financial Planning process.

5.15 The main aspects of the Treasury Management Policy and Practices that need including are as follows:

- Risk Management

The main risk to be considered is credit and counter party risk. A key objective of treasury management activities is to be the security of the principal sums that it invests. Under liquidity risk, there is additional clarification on borrowing in advance of need saying that this should only occur when there is a clear business case for doing so and only for the current capital programme or to finance debt maturities. Specifically, the following are the detailed requirements on credit ratings:

Credit ratings - Requirements
Minimum credit rating criteria should be set for both institutions and countries.
Regard should be given to the credit ratings issued by all three main credit rating agencies and to make decisions on the basis of the lowest rating. The ratings should be regularly reviewed and “ratings watch” notices acted upon.
Credit ratings are only a starting point when looking at credit risk. Generally available market information should also be considered.

- Reporting Requirements and Management Information Arrangements

The minimum reporting requirements to full Council now include a mid-year review. The Overview and Scrutiny Committee will have responsibility for the scrutiny of treasury management policies and procedures. A Committee is to receive regular monitoring reports on treasury management activities and risks – this will be achieved by this Committee reporting on to Strategy Committee (who will then report to Council) as part of the mid-year review.

- Training and Qualifications

Staff involved in the Treasury Management function should be provided with training to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. Those charged with governance should recognise their individual responsibility to ensure that they have the necessary skills to complete their roles effectively. The Chief Finance Officer will ensure that Council/Committee members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

- Use of External Service Providers

There is potential value in employing external providers of treasury management services in order to access specialist skills and resources. However, it is emphasised that the Council has ultimate responsibility for treasury management decisions at all times.

Conclusions

- 5.16 The successful delivery and implementation of IFRS is key to meeting our statutory accounting requirements. Substantial input from the Contract & Asset Management Division and Finance staff, as well as some input from other officers, will be required to ensure successful implementation. A clear implementation and resourcing plan is in place.
- 5.17 The Council's current Treasury Management Policy and Practices largely cover the new Treasury Management requirements. Any changes will be reflected in the report on Treasury Management to Strategy Committee and Council in February 2010.
- 5.18 Member awareness and scrutiny is an important aspect of successfully delivering the required outcomes on both of these key areas. A workshop, with associated guidance and explanations on key elements of the 2009/10 accounts and Treasury Management activities will be held in March/April to support Members in fulfilling their roles.

6. APPENDICES

None.

7. BACKGROUND PAPERS REFERRED TO

New Treasury Management Framework and Treasury Management Code for Local Government.

CONTACT: Barry Hunter
Director of Finance

E-MAIL: barry.hunter@babergh.gov.uk