TITLE	**Update on International Financial Reporting Standards 9, 15 and 16**
FOR CONSIDERATION BY	Audit Committee on 5 June 2019
WARD	None Specific
DIRECTOR	Deputy Chief Executive - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

The report provides the Audit Committee with information on the introduction of **International Financial Reporting Standards (IFRS) 9, 15 and 16** and their adoption into the Council's accounting policies.

RECOMMENDATION

That the Audit Committee notes the content of this information report.

SUMMARY OF REPORT

There are three new IFRS being introduced. These are IFRS 9 – Financial Instruments, IFRS 15 – Revenue from contracts with customers and IFRS 16 – Leases. Guidance on IFRS 16 is still being developed by CIPFA and the introduction of reporting on this IFRS has been deferred until the financial year commencing 1 April 2020.

The report outlines the IFRS, the likely impact on the Council's accounts and actions being taken to ensure these are fully incorporated in the relevant set of accounts.

IFRS 9 – Financial Instruments

This is a new standard effective from 1 January 2018 and included in the 2018/19 Code of Practice

- The main changes relate to the classification of financial instruments and impairments of financial assets as well as additional and revised disclosures. Financial assets and liabilities are now classified by their measurement basis subsequent to initial recognition as opposed to the type of instrument as previously.
- Financial assets are to be classified as follows:
  - At amortised cost
  - At fair value through profit and loss
  - At fair value through other comprehensive income

  The classifications are determined by reference to the Council's business model with regard to investments.
- Financial liabilities are classified as at amortised cost or fair value while PFI and lease liabilities are excluded from the recognition and measurement requirements although all other disclosures apply.
- Group entities and PFI and leases liabilities are excluded from the scope of IFRS 9.
- Impairments are determined by reference to an expected loss model.
- As part of the 2019 accounts preparation provisions of IFRS 9 were reviewed by reference to the Code of Practice including guidance notes and a review carried out of existing financial instruments held by the Council with an assessment of how these should be accounted for under IFRS 9 taking into account the Councils business model (included in the Treasury Management Strategy) for investments to determine the classifications of financial assets and liabilities. The disclosure requirements were reviewed and the accounts disclosures for the 2019 accounts updated accordingly.
- The main impacts for WBC are as follows:
  - All financial instruments are to be classified at amortised cost. This is purely a change in classification with no impact on values. The Council does not have any assets that would require to be classified at fair value through profit or loss or through other comprehensive income.
  - With regard to impairments the Council has adopted a matrix approach to determining expected credit losses in respect of trade receivables which is in accordance with the in terms of IFRS 9. This method is essentially the same as currently used, therefore, no financial impact.
  - The vast majority of the Council's investments are primarily short-term loans to other local authorities. No credit losses are applicable as the Code and guidance notes specifically state this.
  - There are a number of disclosure changes relating to the classification of financial instruments including the change from previous years, impairments and fair values. These have been incorporated in the 2019 accounts.

Action for the 18/19 accounts:

During February and March 2019, finance will review the current financial instruments in detail. As the majority of the changes relate to financial assets only, all financial assets will be reviewed and reclassified into the new categories under IFRS 9. The new categories are Amortised cost, Fair value through other comprehensive income and Fair value through profit and loss.

These will be accounted for and disclosed in accordance with the CIPFA Code of Practice for the 18/19 accounts.

IFRS 15 — revenue from contracts with customers

- This is a new standard effective from 1 January 2018 and included in the 2018/19 Code of Practice.
- This standard does not apply to leases, financial instruments and insurance contracts and non-exchange transactions. Council Tax and NNDR are regarded as non-exchange transactions and are excluded from the scope.
- The standard details the steps and recognition criteria in recognising revenue. The core principle in IFRS 15 is that local authorities will be required to recognise revenue to present the transfer of promised goods or services to service recipients as an amount which the authority expects to receive in exchange for those goods or services.
- There are additional disclosure requirements relating to details of income from such transactions, amounts included in debtors and significant judgements.
- A review of the sources of the Council's income streams has been carried out. The only revenues covered by IFRS 15 are in respect of fees, charges and other service income. The major revenue sources are from fees and charges, rents, car parking income and charges made to third parties primarily in relation to adult social care.
- Amounts are charged to third parties on provision of the relevant service or on receipt of payments for services. These charges are recognised in income on an accruals basis. If, as is the case with adult social care packages or car parking season tickets, charges are for a period which extends beyond the financial year a payment in advance is raised for that portion. In recognising the income all of the recognition criteria of IFRS 15 as outlined above have been met and this is consistent with previous years. Accordingly there are no changes in the basis of recognising revenue for the Council and there will be no requirement to restate prior year revenues or balances.
- Additional disclosures have been considered, and, where considered appropriate, have been included in the 2019 statement of accounts.

IFRS 16 - leases

- IFRS 16 replaces IAS 17 Leases and its related interpretations. The changes introduced by the standard will have substantial practical implications for any local

authority that currently has any material operating leases, and are also likely to impact on the capital financing arrangements of the authority.

- IFRS 16 leaves arrangements largely unchanged for lessors, with two exceptions: the classification of sub-leases and sale and leaseback accounting.
- The new leasing standard will lead to a substantial change in accounting practice for lessees for whom the current distinction between operating and finance leases will be removed. Instead it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to make lease payments for the asset. At the commencement date of the lease, a lessee is required to recognise a right-of-use asset and a lease liability.
- On 22 November 2018, the government's Financial Reporting Advisory Board (FRAB) decided to defer implementation of IFRS 16 for the majority of the public sector; CIPFA/LASAAC has agreed to delay implementation until 1 April 2020 to avoid additional work load from Whole of Government Accounts data collection processes.
- Due to the delay in implementation, no impact on the 18/19 or 19/20 statement of accounts. Once implemented, the potential impact on the accounts would be the recognition of new assets and liabilities on the Council's balance sheet as well as additional supporting information disclosed in the accounts.
- As the implementation of this IFRS has been deferred until the accounting year commencing 1 April 2020, in accordance with the CIPFA/LASAAC board's guidance, the Council's finance service will continue to prepare for implementation and ensure that the information, processes and systems are in place. This will mean working with council services and maintained schools on the early identification of material leases over the next year. The service will also consider the impact on the Council's capital financing arrangements including the prudential indicators.
- Once the 18/19 accounts are finished, Finance will prepare an accounting treatment paper which will be discussed with our External Auditors. The paper will set out our approach on dealing with the implementation of the changes covering roles and responsibilities, data collection, evidence gathering, materiality, accounting and disclosures in the accounts.

Group Accounts

The above changes have been reviewed and, where necessary incorporated in the group accounts.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	Within existing budgets	Yes	Revenue

Next Financial Year (Year 2)	Within existing budgets	Yes	Revenue
Following Financial Year (Year 3)	Within existing budgets	Yes	Revenue

Other financial information relevant to the Recommendation/Decision
None.

Cross-Council Implications
N/A

Reasons for considering the report in Part 2
N/A

List of Background Papers
None

Contact Bob Watson	**Service** Business Services
Telephone No Tel: 0118 974 6151	**Email** bob.watson@wokingham.gov.uk

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