

IFRS EVENT – 8 APRIL 2009

Introduction

1. HM Treasury held an IFRS event on the 8 April to consider the key issues that arose as part of the initial stages of the trigger point process, and to facilitate departments' and other entities' understanding of those issues in their preparations for the introduction of IFRS from 2009-10.
2. The event involved a number of presentations and a panel question and answer session. The programme for the event is at Annex A. This note summarises the key points from the day.
3. HM Treasury outlined the framework of issues for the day as:

Service Concession Arrangements (IFRIC 12)

- Scope: including non-current assets used for administrative purposes
- Control of services provided with the infrastructure
- Control of any significant residual interest
- Initial recognition (IAS 17)
- Subsequent measurement (IAS 16)

IFRIC 4 (Arrangement contains a lease?)

- Outsourcing arrangements etc
- Within scope of IAS 17? (and not IFRIC 12)
- Use of a Specific Asset (Explicit or implicit)
- Right to use the asset – more than an insignificant amount of the output

Components – IAS 16

- Defining a component: each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Other Issues

- IFRS project management
- Whole of Government Accounts.

MOD: Leases and IFRIC 4

4. The MoD outlined the difficulties faced by the department in applying IFRIC 4 to its contracts, particularly relating to the identification of implicit assets. The department is assessing its discrete contracts and reviewing its non-competed contracts; the IFRIC 4 assessment represents a huge challenge, particularly for the major strategic equipment contracts, the amounts for which run into the £billions. Particular issues identified included:

- the difficulty of getting information from contractors;
 - gaining access to site facilities;
 - tier 2 contracts (ie below the party with which MoD has the contract), with no right of access;
 - valuing assets, including the methodology and cost of doing so;
 - resistance from the contractors;
 - the lack of evidence of significant implementation of IFRIC 4 (particularly on implicit recognition) in the private sector;
 - the cost of completing the IFRIC 4 work.
5. In discussion, it was suggested that contract price (cash flows) might be used as part of the solution for initial recognition purposes, although there would also be issues over subsequent measurement.

DEFRA – Leases, Service Concessions and IFRIC 4

6. DEFRA discussed the impact of IFRICs 12 and 4 on the department's IT service delivery contract with IBM. DEFRA's analysis of the contract was that it should be off balance sheet whereas the NAO took the view that it should be on balance sheet. The presentation highlighted some of the complexities and difficulties in applying IFRICs 12 and 4, such as determining control over residual interest.
7. Following the presentation there were discussions on umbrella arrangements (covering more than one entity), possible different treatments for similar arrangements in other organisations, the consequent accounting treatment (including the need to maintain the valuation of the assets).

LDA: Component Accounting – IAS 16

8. Component accounting allows capitalisation of improvements or changes to assets that may otherwise be expensed; it also allows for differences in useful economic lives for significant components. The main point of the London Development Agency presentation was that the assets on balance sheet drive the depreciation charges in the operating cost statement and thus depreciation policy is key both to the presentation of information on the cost of assets.
9. Strategic management of assets improved as a result of knowing the costs, which enhances asset planning and maintenance. In particular, managing a large asset on a component basis allows the recognition of the potentially substantial different useful economic life and therefore allows the most appropriate depreciation charge to be applied and appropriate asset management decisions to be made. It was also noted that ideally an organisation should have an integrated accounting and asset management strategy.
10. The following issues were discussed:
- i. Ensuring decisions on component accounting are made by the right people inside and outside the finance function.
 - ii. The extent of componentisation, for example of an IT system.

- iii. The implications for maintaining revaluation and impairment for additional components.
- iv. Whether the Valuation Office had the capacity to manage any increase in work arising from more componentisation. It was noted that where valuers already take account of significant components in undertaking their valuations, the information available from this process should be considered in deciding whether more explicit component accounting was necessary.

BERR: Leases, Service Concessions and IFRIC 4

- 11. BERR's presentation described how the department went about analysing the ELGAR contract (an IT contract) to determine the appropriate accounting treatment. The ELGAR contract is very large and accounts for approximately 30% of the department's admin budget. The contract was due to end in 2014.
- 12. The ELGAR contract was analysed against the relevant text in the FReM (chapter 6) and IFRIC 12. The department had also considered the discussions at FRAB on service concession arrangements and the inclusion of administrative infrastructure assets as an example of service concession arrangements: 'non-current assets used for administrative purposes in delivering services to the public'. BERR queried whether this example was meant to capture IT service arrangements. BERR also noted that under SIC 29 IT contracts are noted as not being examples of service concessions.
- 13. BERR applied the IFRIC 12 guidance and concluded that the ELGIN contract does not meet the control test and the residual interest test. The contract was then assessed against IFRIC 4 and it was concluded that it was not within its scope either.
- 14. Other issues that arose included: that the recognition of assets in the grantor's balance sheet will not necessarily lead to symmetry in accounting with the operator, and whether the cost of obtaining information to measure the assets and the other work involved exceeded the benefit of improved management information and accountability.

Panel Questions and Answers

- 15. There was concern raised over the ability to meet Trigger Point 3 and the revised estimates deadlines, particularly given some of the uncertainties around accounting for service concessions. The Treasury was prepared to clarify the meaning of the FReM on the treatment of administrative assets in the context of service concession arrangements, as well as other issues that may arise. To help ensure IFRS issues are resolved consistently the Treasury was ready to tackle issues with groups of central government entities who had similar concerns.
- 16. There was discussion about whether the NAO was due to issue guidance on the treatment of service concession arrangements; the Treasury advised that it was not aware of any such guidance.

17. There was a question about whether the Treasury had completed the analysis of the recent information that it had sought from departments about the potential IFRS impact on estimates and budgets, resulting from Trigger Point 1. The relevant sections of the Treasury were in the process of assessing the information returned and would alert departments of any concerns.
18. Some concern was raised about budgetary cover flowing from IFRS impacts and the risk of excess votes. Concern was also raised about the timing in the context of having to meet the 2008-09 laying timetable and then Trigger Point 3. The Treasury was clearly aware of this and Trigger Point 3 and the Supplementary estimates were designed to reveal the impacts which would flow through to budgetary cover as necessary; for example, resource and capital DEL impacts. Departments and other entities would need to inform the Treasury of any difficulties in meeting the deadlines.
19. There was a question about whether property leases came within the scope of IFRIC 12? The Treasury responded that for assets to come within scope there must be service delivery by a private sector operator using the assets and this applied to property assets, as much as to any other assets. Thus if there was no service element then a property lease would probably not be within the scope of IFRIC 12.

DfT: Project Management

20. The DfT presentation highlighted that robust planning had been essential to bring in all of DfT's family to the IFRS project. The department created a partnership environment and developed the IFRS expertise as much as possible in-house to ensure it was retained for the future. Senior management were engaged at an early stage to ensure the project had credibility throughout the organisation and was given sufficient priority.
21. The project was made relevant to the non-finance teams through communication, training and partnership working by helping to embed IFRS into normal work practices. Training from an external provider was being provided to non-finance professionals; there was a discussion about the possibility of DfT sharing with other organisations its training for non-finance professionals.

Whole of Government Accounts (WGA)

22. The WGA presentation demonstrated that the drivers for WGA are to improve accountability to parliament, allow comparisons across the public sector and to improve data quality, including that used in the national accounts. WGA will consolidate some 300 central government bodies, including devolved administrations, 600 local authority bodies, 300 NHS and Foundation Trusts and 60 public corporations.
23. The final dry run for WGA will be for 2008-09 and the closing balance sheet will be restated on an IFRS basis as the opening balance sheet for the first year of IFRS, 2009-10. The first IFRS based WGA would be published in spring 2011.

Key risks included insufficient resources within departments, other entities and auditing bodies and audit qualification.

24. Following the presentation there were discussions on the Local Authority timetable (given that local government is adopting IFRS a year later), Teacher's holiday pay accruals and agreeing 'inter-entity' balances.

Summary and Next Steps

25. It was agreed that the main issue was the need for clarification of the meaning of administrative assets in the context of service concession arrangements. Concerns about meeting the timetable were also noted, as well as the potentially unforeseen impacts on estimates and budgets. The Treasury said it would work closely with departments and other central government entities to help ensure successful resolution of outstanding accounting issues and hence the delivery of IFRS based accounts for 2009-10.



IFRS Event

Wednesday 8 April 2009

Smeaton Room, Institute of Engineers, One Great George Street

Programme

09:30 – 10:00	Registration & Coffee	
10:00 – 10:10	Welcome and Introduction	Chris Wobschall
10:10 – 10:50	MoD: Leases and IFRIC 4	Francine Coles
10:50 – 11:30	DEFRA: Leases, Service Concessions and IFRIC 4	David Atkins
11:30 – 11:50	Coffee	
11:50 – 12:30	LDA: Component Accounting	Angela Myers-Upphoff
12:30 – 13:30	Lunch	
13:30 – 14:00	BERR: Leases, Service Concessions and IFRIC 4	Nick Payne
14:00 – 14:20	Panel Q&A	
14:20 – 14:50	DfT: Project Management	Hiru Bhudia & Eleanor Gill
14:50 – 15:10	Coffee	
15:10 – 15:40	WGA	Karen Sanderson
15:40 – 16:00	Summary and Next Steps	

Chair: **Chris Wobschall**, Head, Assurance and Financial Reporting Policy, HMT

Francine Coles, Head IFRS Implementation Team, MoD

David Atkins, Head of IFRS Implementation Team, DEFRA

Angela Myers-Upphoff, Chief Accountant, London Development Agency

Nick Payne, Director, Commercial and Financial Control & Head of the Finance Profession, BERR

Hiru Bhudia, Head of Group Financial Skills and Accounting, DfT

Eleanor Gill, Group Specialist Accountant, DfT

Karen Sanderson, Head of Government Estimates Accounts and Reporting, HMT.