

INTERNATIONAL FINANCIAL REPORTING STANDARDS
Report of the Acting Executive Director of Finance, IT & Trading

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendations – it is recommended that members:

- i. Note the accounting changes required and the timescale for implementation.
- ii. Note that changes to Reserves and Balances will need to be managed through the MTFS.

Background

1. The Chancellor's 2008 Budget announced that the annual financial statement of Government Departments and other entities within the Public Sector will be prepared using International Financial Reporting Standards (IFRS).
2. The Standards are currently being adapted for the Public Sector and must be implemented to comply with the following timetable:

	2008/09	2009/10	2010/11
Central Government	Comparatives	IFRS	IFRS
NHS	Comparatives	IFRS	IFRS
Whole of Government Accounts (WGA)		IFRS	IFRS
Local Government		Comparatives & WGA	IFRS

3. To prepare IFRS compliant accounts for 2010/11 with full comparative data, the date of transition for Local Government is set by IFRS1: *First time adoption of international financial reporting standards* as **1st April 2009** and we will need to prepare an opening balance sheet that is IFRS compliant as at that date.
4. The move to IFRS is extremely complex and will have wide reaching implications.

Implementation

5. Experience in the Private Sector has shown that the move to IFRS is both lengthy and complex and will involve not only the Accountants, but Internal Auditors, Human Resources, ICT, Surveyors and a range of other stakeholders.
6. Due to the scale and complexity of the project, a Project Board has been formed to control and monitor the implementation of the new requirements.
7. Discussions are currently being held with District Council Treasurers suggesting a joint approach across Devon. Early responses have been very positive.

Local Government Reorganisation (LGR)

8. If LGR, in either of its forms, is approved in the coming months the implementation date will be 1st April 2010, the same date as full implementation of IFRS.
9. The closure of up to nine sets of accounts for 2009/10 will be a significant challenge. The impact of the coincidence with the transition to IFRS must not be underestimated.

Technical Changes

10. The Chartered Institute of Public Finance (CIPFA) are still working with the Treasury and other agencies to develop the International Standards for Local Government but early indications are that there are many changes to be implemented. The following areas are expected to cause the greatest concern:
 - a. **Private Finance Initiatives (PFI)** – potentially moving schemes on Balance Sheet using principles of control rather than risk and reward;
 - b. **Leases** – requirement to split land and building elements. New rules on assessing Finance Leases are expected to see many leases reclassified and moved on Balance Sheet;
 - c. **Employee Benefits** – new requirements to accrue untaken annual holiday;
 - d. **Segment Reporting** – notes to the accounts should reflect the organisational structure and how various parts of it perform financially;
 - e. **Asset Component Valuations** – significant elements of an asset will need to be recorded, valued and depreciated separately;
 - f. **Retrospective Application** – many of the changes required at 1st April 2009 (opening balance sheet) will require retrospective application. This means that if, for example, the Exeter Schools PFI is found to be, under the new regulations, on Balance Sheet, the change does not take effect from 1st April 2009 but from the date of commencement of the PFI scheme. Catch up accounting entries for the whole of the historic contract period will be posted to the accounts of 2009/10 with, of course, the potential impact on Reserves and Balances.

Conclusion

11. The introduction of International Financial Reporting Standards is a significant challenge for the authority. The implementation coinciding with Local Government Reorganisation adds further complexity.
12. The impact on our Reserves and Balances from both the retrospective and ongoing application of the new Standards cannot yet be assessed. Any effect will need to be managed through our Medium Term Financial Strategy (MTFS).

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Electoral Divisions: All
Local Government Act 1972

List of Background Papers
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Background Paper Date File Ref

There are no equality issues associated with this report