

**GOVERNANCE AND AUDIT COMMITTEE
18 JANUARY 2010**

**INTERNATIONAL FINANCIAL REPORTING STANDARDS
(Borough Treasurer)**

1 PURPOSE OF DECISION

- 1.1 To inform the Committee of the implications of the pending introduction of International Financial Reporting Standards.

2 RECOMMENDATION

- 2.1 **That the Committee note the implications of the pending introduction of International Financial Reporting Standards (IFRS).**

3 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 3.1 Nothing to add to the report.

Borough Treasurer

- 3.2 Comments are contained within the body of the report.

Equalities Impact Assessment

- 3.3 There are no equalities issues arising from the introduction of IFRS.

Strategic Risk Management Issues

- 3.4 The only significant risk for the Council is being unable to implement IFRS within the required timescale and receiving a qualified audit opinion on its accounts as a consequence. This risk will be mitigated by:

- Using a detailed project plan to prioritise key areas of work
- Providing staff with comprehensive training on IFRS
- Utilising external advisors to support the Council with the most technically complex aspects of IFRS
- Close and regular liaison with other authorities and the district auditor.

4 SUPPORTING INFORMATION

Reasons for Implementation

- 4.1 The Chancellor's 2007 Budget announcement introduced IFRS-based financial reporting for government and public sector accounting from 2008/09. This was updated in the 2008 Budget Report and as a result Central Government and Health will be required to adopt IFRS for the production of their 2009/10 annual accounts (with comparatives for 2008/09). The adoption by Local Government will be required for annual accounts from 2010/11 (with comparatives for 2009/10).
- 4.2 The main reason for adopting IFRS is to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.
- 4.3 The private sector has been using IFRS since 2005 and the Government decided that the annual financial statements of Government Departments and other public sector bodies will in future be prepared using IFRS adapted as necessary for the public sector.

Background Information

- 4.4 Under the Accounts and Audit (England) Regulations 2003 (as amended) the Council's accounts must comply with proper practice. The regulations define this proper practice as the Local Authority Statement of Recommended Practice (SORP). Currently, the SORP complies with UK Generally Accepted Accounting Practice and not IFRS. The Chartered Institute of Public Finance and Accountancy (CIPFA) published the first accounting code of practice for local authorities based on IFRS on 18 December 2009. The code applies to accounting periods commencing on or after 1 April 2010.
- 4.5 The transition will affect many areas of the organisation, and will impact on budgeting, investment decisions, performance targets – as well as financial reporting, process and system changes may also be needed. The impact of many of the IFRS's will be presentational with new terminology and statements being introduced and will significantly increase the level of disclosure notes required in the Statement of Accounts.
- 4.6 There are however a number of areas which will have a significant impact on the accounts and a small number which could potentially have an impact on the Council's general fund reserve or increase the demands on the Local Taxpayer. CIPFA's IFRS development programme is looking at the areas which might affect the level of Council Tax and where any potential impacts are identified the Government will consult on the introduction of regulations to mitigate these. For example, the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2010 are currently being consulted on and include amendments to mitigate the impact of lease reclassifications, on balance sheet PFI arrangements and accruing for short term employee benefits on the income and expenditure account.
- 4.7 The adoption of IFRS is an authority wide project. IFRS is not just a technical accounting issue and to be successfully implemented, support from the following teams is also likely to be required at some stage:

- Departmental Finance teams
- Human Resources
- Procurement
- Property and
- Legal

Significant Changes

4.8 In common with most local authorities, the most significant areas of change for Bracknell Forest are as follows:-

- Employee Benefits
- Property, Plant & Equipment
- Leases, including Investment Property
- Contracts/Financial Instruments
- PFI (although lead by Reading BC)

Because the 2009/10 comparable figures for the 2010/11 accounts have to be produced on an IFRS basis the effective date of transition is April 1st 2009 and the 2009/10 accounts will need to be restated in an IFRS format.

Employee Benefits

4.9 Short-term benefits such as untaken annual leave and carried forward flexi leave now need to be identified and a monetary figure based on this put into the accounts at the end of each financial year as a liability. We therefore need to collect this data as of 31st March 2009 and each year end going forward.

Property Plant and Equipment

4.10 The valuation methods used have seen some changes and also some assets, such as buildings, now need to be split out into their component parts within the balance sheet. For example the components of Time Square might include the lift system, roof and the air conditioning system.

Leases

4.11 All of our leases need to be reviewed to ensure that they are classified correctly under the new guidance as either finance or operating leases. This may result in more finance leases being recognised. For property leases this may require the land and buildings element of the lease to be separated as only the building element is likely to be a finance lease.

Contracts

4.12 A full review of all our major contracts needs to take place in order to identify if any contain within them lease type arrangements. If this is the case, the lease will need to be separated out from the host contract and classified as either a finance or an operating lease. An example of this could be the Council's refuse collection contract, if the contractor provides new vehicles which have in substance been leased, these will need to be separately identified within the accounts.

PFI

- 4.13 The only PFI contract the Council has is the waste disposal scheme with Reading and Wokingham. Reading Borough Council has taken the lead on the financial side of this project and will be preparing the restatement accounting adjustments for all three Councils. We will review Reading's proposed approach but in general will rely on their accounting advice to ensure a consistent approach between the three authorities concerned.
- 4.14 Initial work has confirmed that this scheme meets the control tests requiring the associated assets to be recognised in the Council's balance sheet. Although this is relevant under IFRS, this change has actually been brought in under the current SORP and is, therefore, effective for the financial year 2009/10.

Bracknell Forest's Approach

- 4.15 The Council used KPMG to assist with the preparation of a baseline report to identify those areas within the accounts that will be affected as a result of the transition to IFRS. This was turned into a detailed project plan, prioritising those areas that will see greatest change within the Council. Initially, work has focussed on employee benefits and leases.
- 4.16 In addition to this a pan Berkshire group has been established, lead by Wokingham, to ensure authorities adopt similar approaches in their transition to IFRS and to provide mutual support if authorities encounter any difficulties with the transition.

Background Papers

IFRS Baseline Assessment (KPMG)

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