

Audit Committee – 22nd September 2011

Report of the Treasurer

Statement of Accounts 2010/11

Purpose of Report

1. To present the Statement of Accounts to the Audit Committee for consideration and approval and to inform the Audit Committee of the outcome of the audit of the accounts. The Statement of Accounts, and the audit of them, are the main formal and public report on the financial standing of the authority.

Background

2. The Accounts and Audit Regulations 2011 have introduced changes to the requirements for approving and publishing the Council's annual accounts. Hitherto, Members were required to approve both the unaudited and audited Statement of Accounts. Under the 2011 Regulations, the statutory requirement for the unaudited accounts to be approved by Members has been removed. The new requirements which came into effect for the 2010/11 annual accounts are as follows:
 - Annual unaudited accounts are to be certified by the Treasurer as the Responsible Financial Officer no later than 30 June; and
 - Annual audited accounts to be re-certified by the Responsible Financial Officer and formally approved by Members then published no later than 30 September.
3. These are our first accounts prepared under International Financial Reporting Standards (IFRS) as adapted for local authorities by the Code of Practice on Local Authority Accounting published by the Chartered Institute of Public Finance and Accountancy (CIPFA). Reports on the effects of IFRS implementation have been presented to Audit Committee in April 2009 and February 2011.

General Fund outturn

4. When I reported the General Fund outturn to Cabinet on 29th June 2011, the redundancy process to deliver 2011/12 savings was still ongoing, and it was necessary at that time to include a prudent estimate of the ultimate cost of those redundancies. That cost has now been revised downwards in the light of actual redundancies and redeployments and the effect on the outturn is as follows:

| | £m |
|--|---------|
| General Fund outturn reported 29 th June 2011 | 230.037 |
| Revision to cost of redundancies | (0.420) |
| Revised General Fund outturn (to be reported to Cabinet 13 th October 2011) | 229.617 |
| Revised Contribution to General Balances | 5.834 |
| Revised Net Revenue Expenditure | 235.451 |

The Statement of Accounts presented to this Committee is consistent with the revised outturn shown above. A reconciliation of the outturn to the Statement of the Accounts is included in the explanatory foreword to the Statement of Accounts.

Statement of Accounts

5. The Statement of Accounts is attached as Appendix 1. The layout has been changed from previous years, most noticeably by the inclusion of a new statement of Movement in Reserves (MiRS) which sets out a summary of the changes to General Fund Balance, Housing Revenue Account (HRA) balance and other reserves over the year, and is therefore presented as the first key statement.
6. On adoption of IFRS policies, the comparative figures from the previous year are restated as if the new policies had always been applied. Consequently the 2009/10 financial statements and disclosure notes have been restated under IFRS and are included in the Statement of Accounts. Note 52 to the Statement of Accounts gives a summary reconciliation of changes between the 2009/10 accounts as previously produced under UK Generally Accepted Accounting Practice (UK GAAP) and as now produced under IFRS.
7. A summary of the key financial statements is detailed below:

Movement in Reserves Statement (MiRS)

8. This statement shows the movements on the Authority's reserves, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves. The first part of the statement shows the movement from 31st March 2010 to 31st March 2011 (with the subsequent page showing the movement from 31st March 2009 to 31st March 2010 for comparison).
9. The Surplus/Deficit on Provision of Services shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES). Exceptional items (described in more detail in the CIES) cause the General Fund to show a surplus and the HRA a deficit, at this point. Other Comprehensive Income and Expenditure shows unrealised valuation gains and losses on property and on pension assets and liabilities which only effect the unusable reserves.
10. The accounting charges in the Surplus or Deficit above are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and rent setting purposes. Adjustments between accounting basis and funding basis under regulations

reverse out the accounting charges (such as depreciation) and insert the statutory ones, such as provision for the repayment of debt.

11. After transfers to and from earmarked reserves, the year end balance on the General Fund has increased by £5.834m from £3.338m to £9.172m. This is consistent with the revised outturn to be reported to Cabinet (see paragraph 4 above).

Comprehensive Income and Expenditure Statement (CIES)

12. This statement agrees to the change in value of the Balance Sheet. In order to be comparable across different authorities, it is based on the Best Value Accounting Code of Practice (BVACOP), rather than the Council's directorate structure.
13. In 2010/11 there were 2 exceptional items shown separately on the CIES due to their size. One was a charge of £192.330m resulting from a downward book revaluation of council dwellings due to a change in the valuation methodology prescribed by Central Government, and an exceptional gain of £58.328m due to the change the in inflation factor for public service pension provision from Retail Price Index to Consumer Price Index. These items have no effect on the current financial standing of the Council.
14. The net effect of income and expenditure items results in a deficit on the provision of services of £141.5m. This is a technical deficit intended to represent the Council's revenue position as it would be if calculated according to IFRS. As such it differs from the movement on the General Fund shown in the MiRS and in the outturn report.
15. The last section of the CIES shows other changes to the balance sheet in the year i.e. unrealised gains and losses on revaluation of property and pension assets and liabilities. The effect of all these movements and adjustments is a net cost of Comprehensive Income and Expenditure for the year of £192.020m. This matches the fall in balance sheet value from £862.994m to £670.974m, largely resulting from the exceptional items above.

Balance Sheet

16. The Balance Sheet shows that the value of total net assets has reduced by £192.020m between 31st March 2010 and 31st March 2011. As stated above, the main reason for this is the change in the value of Council House Dwellings.
17. IFRS has a resulted in a number of PFI and leasing arrangements coming on to the balance sheet, i.e. the leased assets are treated for accounting purpose as belonging to the Council. The value of such assets is within the Property Plant and Equipment Section of the Balance Sheet whilst the liability to repay the principal element of the lease rentals is included within the figure for Long Term Deferred Liabilities. IFRS has also resulted in a large number of technical changes to the categorisation, valuation and depreciation of Long Term Assets.
18. The lower half of the Balance Sheet summarises the usable and unusable reserves held by the Authority. The General Fund balance has increased by £5.834m as discussed above. Some of the increases in reserves have resulted from IFRS changes which make it more likely that unspent grants are recognised

as income in the year that they are received, rather than in the year when they are spent and this income is carried forward in reserves.

Audit of the Accounts

19. The audit of the accounts for 2010/11 is largely complete. However, a small number of queries are outstanding. If these queries result in any significant changes to the Statement of Accounts they will be reported verbally to Audit Committee.
20. The Code of Audit Practice requires the auditors to report the results of their work to the approving body before signing their audit opinion. This report will be presented at this meeting of the Audit Committee. It will also cover wider aspects of the 2010/11 audit, i.e. it will include the audit conclusion on the Council's arrangements for securing value for money.
21. A "letter of representation" is provided to the auditors each year, assuring auditors in some detail that all material information has been made available to them. This will be signed by the Treasurer, relying in some matters on assurances by the Director of Corporate Resources. Our auditors ask that the letter is also signed by the Chair of the Audit Committee. The text will be circulated with the committee papers for this meeting, and any queries members may have will be addressed beforehand or at the meeting.

Finance

22. This report is entirely financial in content, but does not give rise to any direct costs.

Law

23. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1972, part 2 of the Audit Commission Act, 1998, and regulations made thereunder.

Equality Impact

24. The proposal takes account of the Council's policy in relation to equal opportunities.
25. With regard to children and young people:
 - There is no direct effect of the proposals on children and young people.
 - There has been no specific consultation with children and young people.
 - There has been no direct involvement of children and young people in developing the proposals.

Recommendation

26. It is recommended that:-

- the Committee consider the Statement of Accounts.
- the Committee approve the Statement of Accounts.
- The Chair of the Committee signs and dates the Statement of Accounts to give evidence of the approval above.



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Iain Newman
Treasurer

Contact Officer: Amarjit Uppal
Telephone: 01384 812425
Email: Amarjit.uppal@dudley.gov.uk

List of Background Papers

Working and supporting papers for the accounts.
Code of Practice on Local Authority Accounting in the UK 2010/11
Report to Audit Committee 10th February 2011