

**Audit and Standards Committee – 20<sup>th</sup> September 2012**

**Report of the Treasurer**

**Statement of Accounts 2011/12**

**Purpose of Report**

1. To present the Statement of Accounts to the Audit and Standards Committee for consideration and approval and to inform the Audit and Standards 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 give the requirements for approving and publishing the Council's annual accounts 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 are to be re-certified by the Responsible Financial Officer and formally approved by Members, then published no later than 30 September
3. The audited Statement of Accounts is attached as Appendix 1. There have been a number of changes from the unaudited accounts arising from the audit and/or from new information becoming available after the balance sheet date. These are highlighted in the auditor's Annual Governance Report. None of these changes affect the general fund balance.
4. These accounts are prepared under International Financial Reporting Standards (IFRS) as adopted for local authorities by the Code of Practice on Local Authority Accounting published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## **General Fund outturn**

5. I reported the General Fund outturn to Cabinet on 20<sup>th</sup> June 2012 as £238.490m. The Statement of Accounts presented to this Committee is consistent with this outturn position. A reconciliation of the outturn to the Statement of Accounts is included in the explanatory foreword to the Statement of Accounts.

## **Statement of Accounts**

6. The layout of the Statement of Accounts is as last year, with the 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, presented as the first key statement.
7. For 2011/12 the Code has adopted the requirements of Financial Reporting Standard 30 (FRS30) on Heritage Assets. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. The reason for including such items in the accounts is to acknowledge their real value to the community, even if that value is hard to quantify. Details are given in the accounting policies, and in Notes 13, 49, 50 and 51. Under IFRS, when a new policy is adopted, the comparative figures from the previous years are restated as if the new policies had always been applied.
8. A number of minor amendments have been made to accounting policies and to notes, to reflect the permanent state of IFRS adoption. In addition, a new table on exit packages has been added to Note 33 on Officers' Remuneration, and the Trust Funds Note has been re-instated.
9. A summary of the key financial statements is detailed below:

## **Movement in Reserves Statement (MiRS)**

10. 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.
11. The Surplus or 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). Other Comprehensive Income and Expenditure shows unrealised valuation gains and losses on property, on shares in Birmingham Airport, and on pension assets and liabilities which only affect the unusable reserves.
12. 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.

13. After transfers to and from earmarked reserves, the year end balance on the General Fund has increased by £3.032m from £9.172m to £12.204m. This is consistent with the outturn reported to Cabinet.

### **Comprehensive Income and Expenditure Statement (CIES)**

14. 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 Service Reporting Code of Practice (SeRCOP) (which replaces the Best Value Accounting Code of Practice (BVACOP)), rather than the Council's directorate structure.
15. In 2011/12 there was an exceptional item shown separately on the CIES due to its significance. This was the payment of £335.6m to the government resulting from Housing Self Financing. This was financed by long-term borrowing from the Public Works Loan Board. This replaces the previous system of annual negative subsidy payments to the Government. The impact on the Housing Revenue Account was reported to Cabinet in February and June.
16. The net effect of income and expenditure items results in a deficit on the provision of services of £349.8m. 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. This is adjusted by Other Comprehensive Income and Expenditure items (balance sheet adjustments) to arrive at a total Comprehensive Income and Expenditure figure of £402.7m. This matches the fall in balance sheet net assets value from £687.8m to £285.1m.

### **Balance Sheet**

17. The Balance Sheet shows that the value of total net assets has reduced by £402.7m between 31<sup>st</sup> March 2011 and 31<sup>st</sup> March 2012, largely as a result of the new HRA borrowing, and an increase in the intermediate valuation of pension liabilities due to changing economic conditions.
18. Heritage assets are shown at £21.7m. This includes some assets at valuation, and some at cost. Other assets have not been valued as the cost of obtaining a valuation exceeds the value to the users of the accounts, or the nature of the asset makes a market value improbable.
19. The lower half of the Balance Sheet summarises the usable and unusable reserves held by the Authority. The General Fund balance has increased by £3.032m as discussed above. HRA and Schools Reserves have increased, but general fund earmarked reserves have fallen. The changes in unusable reserves mirror the main changes described above.

### **Audit of the Accounts**

20. The audit of the accounts for 2011/12 is substantially complete and the audited accounts are expected to be published by 30<sup>th</sup> September in accordance with regulations.

21. The Code of Audit Practice requires the auditors to report the results of their audit work to the approving body before signing their audit opinion. This report will be presented at this meeting of the Audit and Standards Committee.
22. 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 and Standards 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**

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

### **Law**

24. 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**

25. The proposals take into account the Council's Policy on Equality and Diversity.

### **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.
- The Chair of the Committee signs and dates the Letter of Representation.



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Iain Newman  
Treasurer

### **List of Background Papers**

Working and supporting papers for the accounts.  
Code of Practice on Local Authority Accounting in the UK 2011/12  
Service Reporting Code of Practice.

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