


| | | | |
|---|---|------------------------|----------|
|  | Finance & Audit Scrutiny Committee 12 July 2011 | Agenda Item No. | 5 |
| Title | Statement of Accounts 2010/11 | | |
| For further information about this report please contact | Marcus Miskinis Tel 01926 456804 Marcus.miskinis@warwickdc.gov.uk | | |
| Wards of the District directly affected | None | | |
| Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006? | No | | |
| Date and meeting when issue was last considered and relevant minute number | Executive 8 June 2011: Final Accounts 2010/11 | | |
| Background Papers | Accounts and Audit Regulations 2011 Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (CIPFA) Best Value Accounting Code of Practice 2010/11 (CIPFA) | | |

| | |
|---|------------------------------|
| Contrary to the policy framework: | No |
| Contrary to the budgetary framework: | No |
| Key Decision? | No |
| Included within the Forward Plan? (If yes include reference number) | No |
| Equality & Sustainability Impact Assessment Undertaken | N/A |
| | |
| Officer/Councillor Approval | |
| Officer Approval | Date Name |
| Chief Executive/Deputy Chief Executive | 29 June 2011 |
| Head of Service | 29 June 2011 Mike Snow |
| CMT | |
| Section 151 Officer | N/a Finance Report |
| Monitoring Officer | |
| Finance | N/a Finance Report |
| Portfolio Holder(s) | 29 June 2011 Cllr Mobbs |
| Consultation & Community Engagement | |
| Insert details of any consultation undertaken or proposed to be undertaken with regard to this report. | |
| Final Decision? | No |
| Suggested next steps (if not final decision please set out below) | |
| The Statements of Accounts 2010/11 will be subjected to External Audit and the Audited Accounts will be presented to Council in September 2011 for formal approval. | |

1. SUMMARY

- 1.1 The accounts have been closed in respect of the financial year 2010/11 and duly reported to the Executive in June. The main points were:
- The Capital Programme was underspent by £3.1m, of which £2.2m is due to slippage.
 - The General Fund revenue account shows a surplus of £44,000 over the Latest Estimates after allowing for a further £0.95m of planned expenditure to be carried forward to 2011/12.
 - The Housing Revenue Account shows a surplus of £0.4m over the Latest Estimates.
- 1.2 The draft Statement of Accounts 2010/11 has now been produced and will be subject to Audit up to the end of September. The Audited Statement of Accounts will be presented to Council in September for formal approval.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee notes the pre-audit Statements and the explanations of the major adverse variances (Appendix C).

3. REASONS FOR THE RECOMMENDATION

- 3.1 As part of corporate governance, Members have an important role in overseeing the framework of internal control of the Council. Although the Statements are still subject to audit, it is considered helpful to Members to get an early sight of them, especially in the first year of International Financial Reporting Standards (IFRS) compliant accounts.

4. POLICY FRAMEWORK

- 4.1 **Policy Framework** – The Final Accounts for 2010/11 represent a historic account of the financial performance for that year and, therefore, identifies how well, or otherwise, the Budget and Policy frameworks have been complied with.
- 4.2 **Fit for the Future** – This report has no direct impact on Fit for The Future as it is a historical presentation of the past year's operations. However, financial savings accruing from those accounts will be reflected in future decisions.

5. BUDGETARY FRAMEWORK

- 5.1 The Statement of Accounts 2010/11 is an historic account of the financial performance of the year and shows comparison with the budget for 2010/11 and the results for 2009/10.

6. ALTERNATIVE OPTION(S) CONSIDERED

6.1 Not to review the pre-audit statements.

7. BACKGROUND

- 7.1 The accounts have been compiled so as to comply with the appropriate accounting standards and the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2010/11. This is the first year that the accounts have to be produced under the requirements of the International Financial Reporting Standards (IFRS) and are included as Appendix 'A'. The main changes in the presentation of the accounts are explored in Appendix 'B'.
- 7.2 The Accounts and Audit Regulations 2003 required the Statements of Accounts be approved by the Council by the end of June following the yearend and subsequently audited so that they could be published by the end of September. These Regulations have now been updated and replaced by the Accounts and Audit Regulations 2011 and, subsequently, this requirement has been superseded.
- 7.3 The Government took the view that Members were approving accounts that were very likely to change during the audit with the need for them to be resubmitted for further approval at the end of the audit. Consequently, they decided to review the procedures and issue new regulations. This is more in line with the practice for publishing private sector accounts.
- 7.4 Under the new Regulations the responsible financial officer must, no later than 30th June immediately following the yearend, sign and date the statements of accounts.
- 7.5 An advertisement was placed in local newspapers on 24 June informing electors of their rights to inspect the accounts between 18 July and 12 August and to question the auditor about those accounts from 15 August until the conclusion of the Audit.
- 7.6 The new Regulations now require that members approve the audited accounts by no later than 30th September. Consequently, new meetings have been set up for 21st and 22nd September for the Finance and Audit Scrutiny Committee and Council, respectively, to meet the procedural change.
- 7.7 Although not required by the regulations, this report provides members of the Finance and Audit Scrutiny Committee the opportunity to see the pre-audit Statements.

8. ACCOUNTS 2010/11

- 8.1 The Executive received a report on the Council's accounts in respect of the financial year 2010/11 at its meeting held on 8 June 2011 and duly approved those accounts.
- 8.2 The main items of note from the accounts are discussed below:

8.3 Capital Expenditure

Actual capital expenditure was £8.0m compared with a revised estimate of £11.1m. Appendix 'C' of the Executive report provided a detailed analysis of the major variations.

Approval was made to carry forward slippage of £1.0m on the Housing Investment Programme and £1.2m on the Other Services Programme to their respective 2011/12 programmes.

The main items of slippage on the Housing Investment Programme were in respect of delays in Improvement / Renewal works due to poor weather conditions (£317,000), delays in Asbestos Survey works (£322,000) due to high volumes and delays due to a major contractor going into liquidation (£194,000).

The main items in the Other Services Programme were in respect of various Cultural (£304,000) and Development (£298,000) projects, Rural Initiatives Grants (£136,000) and the Riverside House One-Stop-Shop project (£296,000).

8.4 General Fund Revenue Account

The General Fund produced a surplus of £44,000 when compared to the latest estimate of £16.2m. Appendix 'E' of the Executive report provided details of the major variations.

The main items contributing to this surplus were:

Adverse:

- Housing and Council Tax Benefits (£464,000);
- Royal Spa Centre (£79,000);
- Revenues court costs income (£77,000).

Favourable:

- Fees and Charges income (£270,000);
- Salaries and associated contingencies (£81,000);
- Car Parks Repairs and Maintenance (£50,000); and
- Corporate Repair and Maintenance programme (£54,000).

The Executive transferred the surplus to the General Fund for further consideration as part of the 2012/13 budget setting.

More details explaining the three major adverse variances are included within Appendices C and D.

8.5 Housing Revenue Account

The Housing Revenue Account produced a surplus of £0.4m over the latest estimate surplus of £0.6m. Appendix 'H' of the Executive report analyses the major variations.

The main variations were reduced costs being recharged to General Services Supervision and Management in respect of Support Services and Housing Client/Contractor allocations.

A change in the way housing stock is valued led to a revaluation loss of £105m, although it should be noted that this does not affect the overall

position of the Housing Revenue Account.

8.6 Collection Fund

A deficit during the year of £85,700 reduced the £103,400 surplus on the Collection Fund at the start of the year to a surplus of £17,700 at the end of the year.

Accounting arrangements recognise that the Council acts as an agent on behalf of the Government (in respect of NNDR) and Warwickshire County Council and Warwickshire Police Authority (in respect of Council Tax). Accordingly, balances on those items (Collection Fund Balance, arrears, bad debt provisions and prepayments) are apportioned about between the respective organisations so that the Balance Sheet only reflects this Council's share of those balances.

All NNDR balances are rolled up to arrive at the Government being either a net creditor or debtor. Similarly, all Council Tax items are apportioned on the basis of the precepts with Warwickshire County Council's and Warwickshire Police Authority's amounts being included as debtors on the Balance Sheet.

This Council's share of the £17,700 surplus is £1,986.

8.7 Balance Sheet

The Balance Sheet shows the Council's net worth as at 31 March 2011. This has decreased by £91m since 31 March 2010. The following paragraphs detail the areas where major changes have occurred.

Property, Plant and Equipment have decreased by £108.3m. This mainly comprises the £105m revaluation loss on the Council housing stock and £3.0m revaluation losses on Riverside House, Town Hall and car parks.

The Pension Fund liability has decreased by £13.2m. Half of this is due to reduced future obligations following the Government announcement that pension increases will be linked to the consumer price index instead of the retail price index. In addition the pension fund assets have increased significantly in value during the year.

9. ANNUAL GOVERNANCE STATEMENT

9.1 The Accounts and Audit Regulations 2003 and, subsequently the 2011 Regulations, require local authorities to 'conduct a review at least once a year of the effectiveness of its system of internal control' and include a statement on internal control in any Statement of Accounts. The regulations require local authorities to produce the statement in accordance with 'proper practices in relation to internal control'.

9.2 Following various reviews a new Framework has been put in place which recommends that the review of the effectiveness of the system of internal control should be reported in an Annual Governance Statement.

9.3 To support the conclusions in the Annual Governance Statement, each year a review is to be carried out of the system of internal control to highlight any serious control issues and actions needed to deal with them.

- 9.4 The Annual Governance Statement, containing the findings of the review, is included in the Statement of Accounts. The format, and part of the wording, is based on a pro forma suggested by CIPFA.
- 9.5 As expected, for an authority of our size, the review identified a number of areas for improvement in internal control and these form section 5 of the Annual Governance Statement.
- 9.6 The Standards Committee considered the Annual Governance Statement at its meeting on 21 June 2011 and recommended its approval.

10. STATEMENT OF ACCOUNTS

- 10.1 The Statement of Accounts has been prepared using principles and practices of accounting which 'presents a true and fair view' the financial position and transactions of the Council. 'Proper accounting practices' are deemed to be those specified in CIPFA's "Code of Practice on Local Authority Accounting in the United Kingdom 2010/11" ("the Code") which involves interpretations of accounting standards and other pronouncements by the Accounting Standards Board.
- 10.2 As a consequence of the above, the Statements are required to be shown in a format which more closely follows that used to produce commercial accounts.
- 10.3 It was announced in the 2007 Budget that the UK Public Sector would adopt the International Financial Reporting Standards as this was seen as best practice and allowed for international comparisons to be made. The timetable for Local Government was for full adoption of IFRS for the 2010/11 accounts. Accordingly, a project team was established with the brief to achieve adoption by the required deadline.
- 10.4 Professional seminars and workshops have been attended over the intervening period by the finance staff charged with producing the accounts, as well as organising training for all finance and staff in other units on the general principles of IFRS.
- 10.5 As part of the transition, it has been necessary to recast the 2009/10 accounts under IFRS so that meaningful comparative data can be used. It was intended that this should be done during the autumn of 2010 but delays in the publication of CIPFA's Guidance Notes meant that this did not happen until February 2011. At the Audit Commission's annual regional workshop in February it transpired that we were the only authority to have completed the restatements and were ready for the external auditor's review.
- 10.6 This is the first year that the accounts have to be presented using the International Financial Reporting Standards (IFRS), which is a major change in both the accounting treatment of certain items and the presentation of the Statements and associated notes. Appendix 'B' details the major changes that have taken place.
- 10.7 As part of this change, comparative data for 2009/10 has also had to be restated to comply with the new standards. These were completed during January and February 2011. The External Auditor has subsequently reviewed

the work undertaken in preparation for the formal audit of the 2010/11 accounts.

- 10.8 The first new statement is the Movement in Reserves Statement. This shows the movement in the year on the different reserves held by the Council and analyses them into 'useable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves (i.e. 'unusable reserves'). The statement shows the true economic cost of providing the Council's services, the statutory adjustments required for tax and rent setting and the use of any earmarked reserves.
- 10.9 The next statement is the new Comprehensive Income and Expenditure Statement. This is a more detailed analysis of the true economic cost of providing services referred to above. Although it would appear that the Council is operating at a significant deficit, this is mainly the revaluation loss on the Council's housing stock.
- 10.10 The Balance Sheet is a simpler statement than the former reporting standards with the details being provided in the notes.
- 10.11 Similarly, the Cash Flow Statement is a more abridged version with the notes providing the details. The IFRS Cash Flow statement expands on cash to include cash equivalents i.e. non-cash items that can be quickly liquidated e.g. short term loans.
- 10.12 These accounts will be audited during August and September. The Statements and notes will be adjusted by any material items found during the audit and the responsible financial officer will recertify them prior to them being presented to this Committee again and to Council for formal adoption. The deadline for this is 30 September and, accordingly, new meetings have been arranged for 21st and 22nd September for this committee and Council, respectively, in order that this deadline can be achieved.