

REPORT TO GOVERNANCE & AUDIT COMMITTEE

REPORT OF: Head of Finance

REPORT NO: HOF 192

DATE: 15th March 2012

TITLE:	REVISED APPROACH TO COMPONENTISATION ESTIMATES FOR 2011/12 YEAR END PROCESS	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	None	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Mike Taylor Assets and Resources Portfolio Holder	
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INITIAL IMPACT ASSESSMENT:	N/A	Full impact assessment Required: N/A
Equality and Diversity		
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	None	

1. RECOMMENDATION

It is recommended that Governance & Audit Committee approve the proposed approach to estimating the value of components to be derecognised during the production of the 2011-12 Statement of Accounts.

2. PURPOSE OF THE REPORT

The purpose of this report is to allow the Committee to consider the proposed approach and to ensure that they are confident that use of this method will produce true and fair values for assets to be included in the Balance Sheet.

3. BACKGROUND

In the Annual Governance Report presented to this committee by the District Auditor in September 2011, there was one audit recommendation made. This recommendation was that the Council should “strengthen the estimation technique for calculating the carrying value of replaced assets using appropriate estimation techniques.”

This refers to a requirement in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which is published each year. The requirement is that when a component of a fixed asset is replaced, the value of the old component is written out of the balance sheet and the value of the new one added. Eg if one of the Council’s dwellings has a new kitchen installed, the remaining value of the old kitchen should be calculated and written out of the accounts, and the value of the new kitchen added.

During the production of the 2010/11 accounts it was not possible to calculate the value of old components to be written out as records relating to the age and original cost was not available. The Code suggests an estimation technique using the cost of the new component and indexing back to the date of installation of the old component, and adjusted for depreciation. The Apex stock management system that the Council uses does not have capacity to retain installation dates of old components - when a new component is installed this instalment date overwrites any already in the system. Without this data there is not a date to index back to, so the suggested technique could not be used.

Due to this lack of data, no values were written out for replaced components. To support that there was no value left relating to the old components, the argument was put forward that improvements made to the Council’s housing stock were only those required by the Decent Homes Standard. This was supported by the fact that two years ago, the HRA was running with a £2million deficit and the decision was taken at that time, that the only improvements to be carried out were those deemed necessary to achieve Decent Homes Standard. The improvements budget has therefore been set each year since to only cover these works and would show an overspend at the year end if many other non-Decent Homes improvements were undertaken. This is not the case as the housing capital budget is always underspent.

The Decent Homes Standard requires replacement of key components if they are either older than a specified useful life and in poor condition. The argument therefore was that due to the decision that only “Decent Homes improvements” would be undertaken, only components older than a specified useful life would be replaced. If any asset is older than it’s useful life it would have been fully depreciated and would therefore have no value to be written out.

Although the auditors accepted that there was unlikely to have been a material impact on the values included in the Balance Sheet due to the above facts, the recommendation to improve the estimation technique was made in the Annual Governance Report.

An exercise has been carried out with the Improvements team to identify the number of properties that had improvements undertaken that were not Decent Homes Improvements. This proves that the number of components replaced that had some residual value was small and therefore the value to be written out would be immaterial.

This was a lengthy piece of work and cannot be undertaken every year to inform the values in the Statement of Accounts. The auditors have agreed that:

- provided there is no change to the Council's decision to only carry out Decent Homes Improvements;
- and that there are no mitigating circumstances requiring other improvements to be made (e.g. adverse weather conditions affecting many properties);
- and that this committee approve the approach as described above

then the Council will have met the requirements of the recommendation.

4. OTHER OPTIONS CONSIDERED

The exercise to identify which improvements were not undertaken to meet Decent Homes Standards could be carried out every year starting 1st April to inform the Statement of Accounts. This option is not feasible as the data is difficult to extract, the exercise took five months and the deadline for producing the Statement of Accounts is 30 June.

Issue an instruction that when staff input the installation date of a new component into the stock condition system, they record the date of installation of the old component on a separate system before they overwrite it. This is unlikely to produce reliable data – this separate system may not be kept up to date, staff could forget, new staff may not be made aware, etc.

5. RESOURCE IMPLICATIONS

If this recommendation is accepted, there would be no resource implication.

If the decision is made to carry out the identification exercise every year, more resources would be required both within the Improvements team to extract the data and within Accountancy to analyse the data and calculate the value to be written out.

If an instruction to record old installation dates, this would potentially require a small amount of resource within the Improvements team to check that the data is being kept up to date.

6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)

None.

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

None.

8. CRIME AND DISORDER IMPLICATIONS

None.

9. COMMENTS OF FINANCIAL SERVICES

There are no financial implications arising from this report.

10. COMMENTS OF LEGAL & DEMOCRATIC SERVICES

The proposal in this report is for the adoption of an accounting practice which was recommended by the District Auditor to produce a fair value for existing assets to be included in the balance sheets. The proposal is good practice and something which the Committee can approve as part of its remit to approve the statement of accounting policies

11. APPENDICES:

None.