

# REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF: STRATEGIC DIRECTOR AND HEAD OF FINANCE**

**REPORT NO: HOF202**

**DATE: 23 July 2012**

<b>TITLE:</b>	Statement of Accounts 2011/12	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	None	
<b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>	Councillor Mike Taylor Well Run Council Portfolio Holder	
<b>CONTACT OFFICER:</b>	Daren Turner – Strategic Director Corporate Focus. 01476 406301 Email: <a href="mailto:d.turner@southkesteven.gov.uk">d.turner@southkesteven.gov.uk</a> Richard Wyles –Head of Finance 01476 406210 Email: <a href="mailto:r.wyles@southkesteven.gov.uk">r.wyles@southkesteven.gov.uk</a>	
<b>INITIAL IMPACT ANALYSIS:</b>  Equality and Diversity	Carried out and Referred to in paragraph (7) below  N/A	Full impact assessment Required:  No
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	None	

## **1. RECOMMENDATIONS**

It is recommended that Members of the Governance and Audit Committee:

- a. Review the Statement of Accounts 2011/12 and raise any issues which may need consideration before the accounts are approved at the meeting on 25 September 2012.

## **2. PURPOSE OF THE REPORT/DECISION REQUIRED**

**2.1** The purpose of this report is to present the Council's Statement of Accounts for 2011/12. It covers:

- Account and Audit (England) Regulations 2011
- Section 21(2) Local Government Act 2003
- Statement of Accounts
- Commentary on financial statements

## **3. DETAILS OF REPORT**

### **3.1 Account and Audit Regulations 2011**

The Account and Audit Regulations were changed for the 2011/12 financial year, so that there is no longer a requirement for the Governance & Audit Committee to approve the Statement of Accounts by 30 June of each year. The new requirement is that they are approved by the officer with responsibility for the Council's financial affairs (s151 Officer) by 30 June (which has been undertaken) and that after completion of the audit, the accounts must then be approved by those charged with governance by 30 September 2012. It is however, considered good practice for the Governance & Audit Committee to review the draft Statement of Accounts before the audit is complete.

The Statement of Accounts must be published by 30 September 2012. The District Auditor must complete his audit and issue the relevant audit opinion to ensure the statutory deadline is met.

The purpose of the external audit of the financial statements is to give an opinion on:

- a. whether they present a true and fair view the financial position of the audited body and its expenditure and income for the year in question.
- b. whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

Auditors must provide reasonable assurance that, subject to the concept of materiality, the financial statements

- a. are free from material misstatements, whether caused by fraud or other irregularity or error
- b. comply with the statutory and other requirements applicable to the accounts of the audited body, and
- c. comply with all relevant requirements for accounting presentation and disclosure.

Auditors' opinions on the accounts are added to the Statement of Accounts. Further detail of the audit findings is provided through the annual audit letter to the Council.

### **3.2 Section 21(2) Local Government Act 2003**

Section 21(2) of the Local Government Act 2003 requires that the Statement of Accounts is prepared in accordance with the statutory framework established by the Accounts and Audit Regulations (England) 2011. The Statement of Accounts which accompanies this report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on International Reporting Standards, (the Code) produced by CIPFA<sup>1</sup> which sets out proper accounting practices required for the Statement of Accounts.

### **3.3 Statement of Accounts**

The Statement of Accounts will be published following the annual audit by the Audit Commission which is due to commence on 9<sup>th</sup> July 2012. The accounts and associated papers meet the requirements of the Accounts and Audit Regulations 2011 and comply with the requirements of the Code.

The published accounts of the Council are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. In my role as Chief Finance Officer, I have to:

- a. ensure the regularity of transactions, by putting in place systems of internal control to ensure that financial transactions are lawful
- b. maintain proper accounting records, and
- c. prepare financial statements that give a true and fair view of the financial position of the body and its expenditure and income.

The Statement of Accounts include an explanatory foreword and a 'review of the year' section which provides interested parties with a guide to the most significant matters reported in the accounts. It provides an explanation in overall terms of the Council's financial position and assists with the accounting statements. It also contains a commentary on the major influences affecting the Council's income and expenditure and cash flow, and information on the financial needs and resources of the Council.

### **3.4 Changes for 2011/12**

This is the second year the Council has prepared and presented the Statement of Accounts following International Financial Reporting Standards (IFRS), instead of UK Generally Accepted Accounting Practice (UK GAAP).

All of the accounting policies have been reviewed and updated and the Committee, at its meeting on 15 March, approved the accounting policies that have been used in respect of the 2011/12 accounts. As there were only a small

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<sup>1</sup> CIPFA – Chartered Institute of Public Finance and Accountancy

number of changes to the accounting policies required for the accounts for 2011/12 and therefore they follow a very similar format to the 2010/11 accounts.

One new accounting policy has been added in respect of heritage assets. This is shown at note 45 of the statement of accounts.

The prime statements comprise of:

- **Movement in Reserves Statement:** this statement shows the changes that have occurred in the Council's reserves during the year and reconciles these movements back to the Comprehensive income & Expenditure Statement.
- **Comprehensive Income & Expenditure Statement:** this statement shows the income and expenditure under SeRCOP (service reporting code of practice) headings. It also presents unrealised gains and losses that have occurred in the year.
- **Balance Sheet:** continues to present the financial position of the Council at the end of the financial year being reported.
- **Cash Flow Statement:** continues to summarise the flows of cash into and out of the Council's bank accounts during the financial year.

#### Other Significant Items in the Statement of Accounts

The most significant item in the statement of accounts relates to the payment made by the Council in respect of the self financing arrangements for the Housing Revenue Account (HRA). The Council borrowed £121.652m from the PWLB (Public Works Loan Board) on 28<sup>th</sup> March 2012 and this transaction is shown in the accounts. The loan will be repaid over a 30 year period and is a combination of a maturity loan of £25m over a 9 year profile and the balance of the loan over a 30 year EIP (equal instalments of principal). This transaction is reflected in the balance sheet under the current and long term liabilities.

### **3.5 Movement in Reserves Statement**

The overall movement in reserves held on the bottom of the balance sheet as at 31<sup>st</sup> March 2012, has been a decrease of £128.522m. This reduction is due, in part, to the significant borrowing the Council has undertaken in respect of the HRA self-financing arrangements that resulted in borrowing being undertaken on 28<sup>th</sup> March 2012.

### **3.6 Comprehensive Income & Expenditure Statement**

This statement is fundamental to understanding the Council's activities, in that it reports the net cost for the year of all functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

The service expenditure is in accordance with the 'Service Reporting Code of Practice' and includes the line 'settlement payment to Government for self financing'.

The Council's Income and Expenditure Account shows a deficit of £128.523m, compared to a deficit of £67.102m (restated) in 2010/11. To better understand this change it should be considered as two elements:

- a) Surplus or Deficit on provision of Services: £123.174m deficit in 2011/12 (£82.395m deficit in 2010/11). This element represents the net cost of providing services in the year, offset against income raised from Council Tax and Government Grants. The large deficit in 2011/12 is a result of the self financing payment in respect of the HRA. This is however reversed out through the Movement in reserves Statement so has no impact on Council Tax.
- b) Other Comprehensive Income & Expenditure: a movement of £22.413m in respect of pension liabilities attributed to SKDC. This large variance is due, in part, to the surplus that was created in the 2010/11 accounts as a result of the Government changes to the pension calculations – specifically these related to the change of future pension increases being linked to CPI rather than RPI. As CPI is generally 0.5% - 1% lower than RPI this had decreased the value of the pension liabilities and therefore resulted in a positive gain in the accounts. Therefore this change has distorted the 2010/11 when comparing the two years.

### **3.7 Balance Sheet**

The Balance sheet is fundamental to the understanding of the Council's financial position at the year end. It shows the balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

The Council's net worth was £108.210m as at 31<sup>st</sup> March 2012 which represents a decrease of £128.522m on the previous financial year. The key reasons for this are explained in the paragraphs above detailing the movements in reserves and the comprehensive income & expenditure.

### **3.8 Cash Flow Statement**

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand, cash held in instant access accounts and money markets funds less overdrafts repayable on demand.

### **3.9 Housing Revenue Account**

The Housing Revenue Account (HRA) is 'ringfenced' from the general fund. This reflects the statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government

and Housing Act 1989. It includes credit and debit items required to be taken into account in determining the surplus or deficit on the HRA for the year.

The amounts included in the HRA differ from the amounts in respect of the HRA services included in the Income and Expenditure Account for the authority as a whole, which includes income and expenditure in accordance with the Code rather than in accordance with statute and non-statutory proper practices. For this reason the HRA has two parts:

- a. HRA Income and Expenditure Account
- b. Movement on the Housing Revenue Account Statement

The HRA shows a deficit of £123.692m for 2011/12 compared with a deficit position of £87.476m for 2010/11. The key reason for this deficit is the self financing borrowing the Council has undertaken.

### **3.10 Collection Fund**

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

### **3.11 Conclusion**

The report and enclosures represents a detailed picture of the Council's financial activity for 2011/12 and which can be used as a base for medium term financial planning.

Finally, I would like to express my gratitude to colleagues in Accountancy services for producing the Statement of Accounts within the prescribed timescales.

## **4. OTHER OPTIONS CONSIDERED**

Not applicable.

## **5. RESOURCE IMPLICATIONS**

There are no specific financial implications arising from this report.

## **6. RISK AND MITIGATION**

Risk has been considered as part of this report and any specific high risks are included in the table below:

<b>Category Risk</b>	<b>Action / Controls</b>
Statutory risk	Statement of accounts compiled in accordance with statutory guidance

**7. ISSUES ARISING FROM IMPACT ANALYSIS**

None

**8. CRIME AND DISORDER IMPLICATIONS**

None

**9. COMMENTS OF FINANCIAL SERVICES**

These are included in the report.

**10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES**

In accordance with the Accounts & Audit regulations 2011 the Statement of Accounts must be approved by the Committee by 30<sup>th</sup> September 2012. The Committee has the opportunity to review the unaudited Statements prior to the statutory deadline.

**11. COMMENTS OF OTHER RELEVANT SERVICES**

None

**12. APPENDICES:**

Appendix A - Statement of Accounts 2011/12