



## AGENDA ITEM: 6

### SUMMARY

<b>Report for:</b>	<b>AUDIT COMMITTEE</b>
<b>Date of meeting:</b>	<b>19 September 2012</b>
<b>PART:</b>	<b>I</b>
If Part II, reason:	

<b>Title of report:</b>	<b>Statement of Accounts 2011/12</b>
<b>Contact:</b>	Cllr N Tiley, Portfolio Holder for Finance and Resources Sally Marshall, Corporate Director (Finance and Governance)
<b>Purpose of report:</b>	The purpose of this report is to present the Council's Statement of Accounts for 2011/12. It covers: <ul style="list-style-type: none"> <li>· Account and Audit Regulations 2011</li> <li>· Section 21(2) Local Government Act 2003</li> <li>· Statement of Accounts</li> <li>· Commentary on financial statements</li> </ul>
<b>Recommendations:</b>	It is recommended that Members of the Audit Committee: <ol style="list-style-type: none"> <li>a) review the Statement of Accounts 2011/12 and raise any issues which will provide them with the assurance that they need to approve the Statements on behalf of the Council;</li> <li>b) subject to (a) above, approve the Statement of Accounts for 2011/12; and,</li> <li>c) subject to consideration of the External Auditor's Annual Governance report, approve the letter of representation as attached at Appendix B in the capacity of those charged with Governance.</li> </ol>
<b>Corporate objectives:</b>	Corporate Governance
<b>Statutory Officer Comments:</b>	<p><b>Section 151 Officer :</b></p> <p>My comments are included within the body of this report and within the commentary and explanatory foreword to the Statement of Accounts.</p> <p><b>Monitoring Officer:</b></p> <p>The Council has a statutory duty to approve the Statement of Accounts by 30 September in accordance with the Account and Audit Regulations 2011.</p>
<b>Consultees:</b>	None
<b>Background papers:</b>	None

## **BACKGROUND**

1. The Account and Audit Regulations 2011 require that local authorities must approve their financial statements by 30 September. The District Auditor must complete his audit and issue the relevant audit opinion to ensure the statutory deadline is met.
2. 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 of the financial position of the audited body and its expenditure and income for the year in question; and
  - b) whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.
3. The Auditor’s opinion is added to the Statement of Accounts, with further detail of the audit findings provided in the Annual Audit Letter to the Council.
4. The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting 2011/12 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
5. An explanation of the impact to the Accounts arising from changes to the Code and accounting policies is detailed in Note 39 of the Statement of Accounts.

## **Statement of Accounts**

6. It is the role of the Corporate Director (Finance and Governance) to present the Council’s annual Statement of Accounts to this Committee for formal approval.
7. 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. The Corporate Director (Finance and Governance), is required 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.
8. The Statement of Accounts includes an explanatory foreword which provides a user-friendly guide to the most significant matters reported in the accounts together with an overview of the Council’s financial performance throughout the year.

## Comprehensive Income and Expenditure Statement

9. The Comprehensive Income and Expenditure 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.
10. Total Comprehensive Income and Expenditure for the year was a net loss of £388.9m and consists of the following:
  - a) Deficit/(Surplus) on the Provision of Services of £371.2m (2010/11: £72.5m); and
  - b) Other Comprehensive (Income)/Expenditure of £17.7m (2010/11: (£31.3m)).
11. The service expenditure within the Deficit on the Provision of Services is presented in accordance with the "Service Reporting Code of Practice for Local Authorities" to enable comparability with other councils.
12. The change in the Deficit/(Surplus) on the Provision of Services of £298.7m between years is primarily due to the following:
  - a) £354m one-off charge in 2011/12 arising from the introduction of Housing Self Financing;
  - b) £40.0m increase in revaluation losses during 2011/12, mainly due to reduction in house prices;
  - c) £17.2m one-off credit to pension expense in 2010/11 due to a change in the basis of calculating the obligation from RPI to CPI from 1 April 2010;
  - d) £112.2m one-off charge in 2010/11 as a result of a decrease in the vacant possession adjustment factor applied to the Council Dwellings from 46% to 39% as of 1 April 2010 in accordance with The Stock Valuation for Resource Accounting Guidance for Valuers – 2010;
  - e) £1.4m increase in income in 2011/12 primarily relating to changes in the fair value of Investment Properties;
  - f) £1.4m lower expenditure in 2011/12 following the phasing out of the Council's discretionary travel scheme as statutory responsibility for the provision of Concessionary Fares passed to Herts County Council;
  - g) £4.3m reduction in Taxation and Non-specific Grant Incomes; and
  - h) £2m net reduction in costs of services in 2011/12, following successful implementation of a number of savings initiatives, primarily Phase 2 of the staffing restructure.
13. Other Comprehensive Income and Expenditure primarily covers those accounting transactions that result from movements in market prices and

indices outside the influence of the Council. For 2011/12, these transactions totalled £17.7m and consisted of:

- a) £3.4m net loss on the revaluation of property; and
- b) £14.3m actuarial losses on the pension fund assets and liabilities.

### **Balance Sheet**

14. The Balance Sheet is fundamental to understanding 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.
15. The Council's net worth was £384.1m as at 31 March 2012, which represents a decrease of £388.9m on the previous financial year. The primary reasons for the net decrease are:
  - a. £346.9m decrease due to the new Council borrowings following the introduction of Housing Self Financing;
  - b. £22.1m decrease in property values on revaluation; and
  - c. £14.5m increase in the net pension liability.

### **Movement in Reserves Statement**

16. The Movement in Reserve Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce local taxation) and 'other reserves'.

### **Cash Flows Statement**

17. The Cash Flows Statement shows the movements in cash and cash equivalents held by the Council throughout the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

### **Housing Revenue Account**

18. The Housing Revenue Account (HRA) is 'ring-fenced' from the General Fund. This reflects the Council's statutory obligation to maintain a separate revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989.
19. The HRA shows a deficit of £371.2m for 2011/12. The primary reasons for the net decrease are:
  - a) £354m one-off charge in 2011/12 arising from the introduction of Housing Self Financing; and,
  - a. £18.6m decrease in property values on revaluation.

## **Collection Fund**

20. 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.

## **Changes to the Accounts Approved by the Corporate Director (Finance and Governance) on 28 June 2012**

21. There have been no material changes to the Statement of Accounts since the report to Audit Committee on 28 June 2012.
22. The two most notable of the immaterial changes relate to Provisions and the treatment of Dwellings Revaluations, which are covered in more detail in the paragraphs below.
23. An additional provision has been included within the accounts in relation to litigation claims against the Council. This has been calculated at a value of £200k. This change reduces the closing General Fund working fund balance by £200k. The likely payments associated with this litigation have already been included within the 2012/13 budget approved by Full Council in February 2012, and this change will, therefore, have no impact on taxpayers.
24. The revaluations of dwellings were reviewed by the Financial Services team as part of the migration of housing data to the asset management system. This review identified a small error in the treatment of the downward valuations. Of the £19.3m total revaluations, £161k was reversed out from the Income & Expenditure account and charged to the Revaluation Reserve to offset previous gains held in the Reserve.

## **Conclusion**

25. The report represents a detailed picture of the Council's financial activity for 2011/12. I would like to thank all colleagues for their help, support and dedication in the preparation of the Statement of Accounts.