

Committee: Performance and Audit Committee
Date: 18 August 2011
Title: Draft Statement of Accounts 2010/11
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Agenda Item

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Item for Note

Summary

- 1 The draft 2010/11 Statement of Accounts accompanies this report and is presented to the Committee for information. In accordance with statutory requirements, the accounts were certified by the Assistant Chief Executive – Finance on 30 June and were published on the Council's website on that date.
- 2 The Statement of Accounts is consistent with the 2010/11 outturn results [reported to the Cabinet on 16 June](#).
- 3 The accounts are in the process of being audited. The results of the audit, together with the final audited Statement of Accounts, will be submitted to this Committee on 29 September for approval, prior to final publication. It is possible that the accounts will change as a result of the audit process; a small number of non-material changes have already been identified at the time of writing this report. A verbal update on progress to date will be given at the meeting.
- 4 The purpose of bringing the draft accounts to the Committee at this stage is to acquaint members with the format and content of the accounts and the underlying issues, as preparation for the act of approving the final accounts in September.
- 5 The 2010/11 Statement of Accounts has been produced for the first time in accordance with International Financial Reporting Standards (IFRS). On 23 June [the Committee received a report](#) setting out the key technical changes and the challenges in preparing the Council's Accounts for compliance with IFRS.

Recommendations

6. The Committee is recommended to:
 - a. review the Statement of Accounts for 2010/11
 - b. note this report.

Background Papers

7. International Reporting Standards.

Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (The Code) and associated Guidance Notes – published by CIPFA/LASAAC.

Various Audit Commission, CIPFA and PricewaterhouseCoopers publications.

Accounts and Audit Regulations 2011.

[2010/11 Outturn Report to Cabinet 16 June 2011](#)

[IFRS report to Performance & Audit Committee 23 June 2011](#)

Impact

Communication/Consultation	None
Community Safety	None identified
Equalities	None identified
Finance	Detailed in the report.
Health & Safety	None identified
Legal implications/ Human Rights	Under the Accounts and Audit Regulations 2003 (as amended) and 2011, the Council has responsibility to: <ul style="list-style-type: none">• Approve the Statutory Accounts for 2010/11 no later than 30 September 2011, and• Publish the audited Statutory Accounts for 2010/11 no later than 30 September 2011. In line with the requirements of 'The Code'.
Sustainability	None identified
Ward-specific impacts	None identified
Workforce/Workplace	None identified

Background

8. In preparing prior years Statutory Accounts, Local Authorities followed the requirements of UK Generally Accepted Accounting Principles (UK GAAP). In order to improve financial reporting consistency and comparability on a global scale, the Government has decided that all government accounts will be prepared using IFRS. The 2010/11 accounts have been prepared in order to fulfil these requirements.

9. The production and approval of the Council's accounts is an important process. It enables stakeholders to review the Council's financial performance for the previous financial year and its overall financial activity for the financial period to 31st March 2011.
10. Producing the Accounts and publishing them by the 30th June 2011 is a legal duty, and reflects 'good housekeeping' in respect of the Council's finances.
11. As a result of changes included in the Accounts and Audit Regulations 2011; the Section 151 Officer - in the council's case - the Assistant Chief Executive Finance – has a duty to authorise the Draft Accounts for publication by the 30th June 2011. There is therefore no statutory duty for the draft accounts to be approved by the Committee; however it is considered 'best practice' for members to consider the draft accounts after they have been signed by the Section 151 Officer.
12. Members are responsible for satisfying themselves that due professional care has been taken in the production of the draft Accounts. Specifically, that appropriate accounting policies have been followed and whether there are concerns in the financial statements which need to be addressed.
13. The guidance within the report should hopefully assist Members to fulfil this duty.

Financial Impact

14. To limit the financial impact of the accounting changes on Council budgets, Central Government has introduced various statutory overrides in order to give Local Authorities financial protection on their General Fund and Housing Revenue Account bottom lines. For example, under IFRS the accounts have to include the cost of untaken annual leave, but the statutory override means this is taken out again so there is no impact on the bottom line or the Council Tax payer/Rent payer.

Review of the draft 2010/11 Accounts

15. The draft Accounts accompany this report.
16. The format of the accounts is prescribed by legislation, which can make the statements difficult for the lay person to understand. This has been compounded by the introduction of new reporting requirements and the need to apply additional statutory overrides in order to protect the Council Tax and Housing rents levy. The statements are far from straight forward even for experienced local government officers.
17. Appendix 1 hopefully details in 'plain english' the key IFRS changes within the Accounts. Appendix 2 compares key figures in the accounts with the Outturn figures reported to Cabinet on the 16th June 2011.
18. The Explanatory Forward (pages 3 to 15 of the statements) provides readers with a summary of the year's performance.

Review of the Audited 2010/11 Accounts

19. The Accounts and Audit Regulations 2011 require Members to formally approve the audited Accounts by 30 September each year. The Performance and Audit Committee will consider and formally sign off the audited Accounts on the 29 September 2011.
20. At that meeting, the committee will receive the External Auditor's statutory report to 'those charged with governance', detailing those matters arising from the audit which they wish to draw to the attention of Members.
21. After approval, the Accounts will be published together with the opinion given by the external auditor.

Members Training

22. An informal workshop will be held immediately prior to this Committee meeting (18 August) and a further workshop immediately prior to the meeting on 29 September.
23. Further training on an individual, small group or whole Committee basis can be arranged upon request.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
The draft Statutory Accounts do not materially comply with the requirements of 'The Code', resulting in an adverse ISA 260 report (Communication with Those Charged with Governance) and associated reputational impact.	2 = Little or no likelihood Arrangements and work plans have been organised to minimise the risk of material non compliance with the 'Code'.	3 = Significant impact – action required Statutory requirement, adverse Audit Report. Delayed or qualified audit opinion.	Continuous liaison with the Council's External Auditors will assist Officers to identify areas of concern early and remedy the issues effectively.

- 1 = Little or no risk or impact
 2 = Some risk or impact – action may be necessary.
 3 = Significant risk or impact – action required
 4 = Near certainty of risk occurring, catastrophic effect or failure of project.

Appendix 1

Main Changes to the Statement of Accounts

The implementation of IFRS has resulted in a significant change in the look, feel and content of the Accounts. The key accounting changes include the following:

Key Financial Statements

These now comprise the following statements which by law have to conform to proper accounting practice; they do not reflect the Council's management reporting structure or the local government finance laws under which the Council has to operate. These statements are supported by the notes to the Accounts (page 24 to 81), and the Supplementary Financial Statements – Housing Revenue Account and Collection Fund.

Movement in Reserves Statement (page 18 to 19) – shows the change in the Council's 'net worth' during the year, analysed into usable reserves (money available to spend) and unusable reserves (notional/accounting items). The statement shows that the Council's usable reserves reduced by £1.8 million during the year, comprising use of capital resources (£1.3 million) and revenue reserves (£0.5 million). The Council's net worth overall increased by £26.4 million, due mainly to improvements in asset values.

Comprehensive Income and Expenditure Statement (page 20) – shows the full economic cost of providing services in accordance with IFRS accountancy rules, and recognition of income and accounting gains. The statement shows how the increase in net worth of £26.4 million is calculated. This is a notional accounting measure: it is more important to focus on the movements in usable reserves.

Balance Sheet (page 21 to 22) – shows the net worth of the Council as at the end of the financial year. It shows that as at 31 March 2011, the Council's net assets totalled £245.4 million, an increase of £26.4 million on the figure as at 31 March 2010. Improvements in asset values, notably council houses, and a reduction the pension fund deficit, are the main reasons why the Council's net assets have increased.

Cash Flow Statement (page 23) – shows the changes in the level of cash (current accounts) and cash equivalents (instant access deposit accounts). The statement shows that there was no significant change in the amount held at the end of the year compared with the previous year, with the level being around £5.4 million.

Other significant changes arising from IFRS

Donated Assets

Under IFRS, if the Council has main responsibility for operating an asset, it comes onto the Balance Sheet, even though the Council doesn't own it.

Impact for UDC: the following assets are now included in the Council's accounts:

- *Saffron Walden Museum and associated artefacts*
- *Thaxted Guildhall*

This resulted in assets to the value of £628,000 being added to the balance sheet.

Depreciation

Depreciation is a notional accounting measure of 'wear and tear' – the reduction in an asset's value during its useful working life.

IFRS requires each component of an asset to be examined separately, as different parts of a building may wear out quicker than others e.g. a building's heating system may not last as long as its roof. If the differences are significant, separate depreciation calculations are required.

Impact for UDC: the change in accounting rule has resulted in £338,000 additional depreciation for 2010/11, with 5 material assets being componentised with effect from 1st April 2011. This is a notional accounting item, there is no impact on usable reserves, council tax or rents.

Capital Grants & Contributions

IFRS requires capital grants and contributions to be classified differently on the Balance Sheet, according to whether or not conditions exist and have been satisfied. This mostly relates to S106 contributions, and in UDC's case, monies received from the Stansted Area Housing Partnership.

Impact for UDC: grants and contributions; totalling £2.8 million have been reclassified on the Balance Sheet as Usable Reserves, as the appropriate conditions are more than likely to have been met, or do not exist.

Lease Arrangements

The accounting rules for Lease arrangements have tightened substantially under IFRS. This means that under some leases, for accounting purposes the Council is deemed to own the asset, even though in practice ownership rests with the lease company.

Impact for UDC: the change in the rules has had a minimal impact on the Council. Two items of equipment were brought onto the Council's balance sheet totalling £52,000 as they have been classified as finance leases. All other lease arrangements remain operating leases.

Accrued Leave provision

Under IFRS, Councils are required to make provision for any untaken employee leave at the end of the financial year. This is because in theory, if an employee was to leave on 1 April, the Council would have to pay them a sum equivalent to the value of their untaken leave as at 31 March

Impact for UDC: the provision as at 31 March 2010 was calculated to be £128,000, and as at 31 March 2011 a change of £1,000, with the provision now totalling £127,000.

Investment Properties

The rules regarding the identification of Investment properties became tighter under IFRS.

Impact for UDC: as a result a number of immaterial assets moved into the operational asset classification within the fixed asset section of the balance sheet. The ongoing impact of this change will be additional notional depreciation charges.

Additional detail in the Accounts

The final major change is one of narrative. There is a considerable amount of additional detail within the Accounts as a result of:

- the transition to IFRS and the need for comparative IFRS based figures;
- the need to comply with the additional requirements of the 'Code' and emerging best practice in implementing the 'Code'.

Some of the additional detail will be thinned from next year as there will be minimum restatement in the 2011/12 Accounts. However, it should be noted that accounting standards continue to be reviewed (for example accounting for Heritage Assets to be implemented in 2011/12, accounting for Transport Infrastructure and reporting for Housing Revenue Account 2012/13) and there will be a direct impact on both the preparation work for the Accounts and the disclosure requirements.

Appendix 2**RECONCILIATION OF REPORTED OUTTURN WITH THE STATEMENT OF ACCOUNTS**

Item	Outturn Report to Cabinet 16 June 2011	Draft Statement of Accounts
General Fund Net Expenditure for 2010/11	Cabinet Report page 14/2: Outturn net committee expenditure £9.023 million	Comprehensive Income & Expenditure Account (p20) Deficit on Provision of Services – £23.368 million This figure includes various notional accounting items which are not reported as part of the outturn as they are not actual costs that the Council is required to budget for This is reconciled to the GF Portfolio Analysis - £9.023 million in Note 6.2 (page 44)
General Fund Reserves	Cabinet Report page 14/4: Total reserves as at 31 March 2011 - £5.197 million	Balance Sheet as at 31 March 2011 (p22): Revenue Balance – General Fund - £1.181 million General Fund Earmarked Reserves - £4.016 million Total £5.197 million.
Housing Revenue Account Balance	Cabinet Report page 14/7: HRA Working Balance outturn £796,000	Balance Sheet as at 31 March 2011 (p22): Revenue Balance – Housing Revenue Account £796,000
Capital Expenditure 2010/11	Cabinet Report page 14/8: Total Capital Expenditure £5.129 million	Note 19 (page 63) Total Capital Expenditure: £5.161 million Minor difference of £32,000 is due to a net movement in the value of Work In Progress