EAST HERTS COUNCIL

AUDIT COMMITTEE – 21 SEPTEMBER 2011
COUNCIL COMMITTEE – 28 SEPTEMBER 2011

REPORT BY THE EXECUTIVE MEMBER FOR RESOURCES AND INTERNAL SUPPORT

STATEMENT OF ACCOUNTS 2010/11

WARD(S) AFFECTED: None specific

Purpose/Summary of Report

- This report sets out the background to the requirement for Members to consider and approve the Statement of Accounts. The report sets out the key changes arising from the move to International Financial Reporting Standards (IFRS). Supporting comments are made on each of the main statements.

RECOMMENDATION FOR DECISION BY AUDIT COMMITTEE :	
(A)	**That the Council's Statement of Accounts for the financial year 2010/11 be approved and signed by the Chairman at the conclusion of the meeting.**

1.0 Background

1.1 The approval of the Council's Accounts is a statutory requirement. The Accounts and Audit Regulations 2011, which came into force on 31 March 2011, set out changes to the requirements for the production, approval and publication of a Council's annual Statement of Accounts. These changes were reported to the Committee at its meeting on 12 July 2011.

1.2 The Committee are reminded that the new regulations now require the Accounts to be signed by the Council's S151 officer by 30 June following the relevant accounting year and passed for audit before being approved by the relevant body of the Council (as defined within the Regulations) following audit and then published by 30 September.

1.3 This change in requirements now means that the relevant body (for this Council the Audit Committee following amendment of the constitution) has the benefit of receiving the External Auditor's report on the accounts prior to Member approval.

1.4 A separate report elsewhere on the agenda deals with requirements for consideration and approval of the Council's Annual Governance Statement, which is required to be included within the Council's overall annual accounts.

2.0 <u>Report</u>

2.1 The Statement of Accounts is attached at Essential Reference Paper B to the report.

2.2 The audit of the Council's accounts has now been completed and the External Auditor's report is included at item 8 to the agenda. No significant issues have arisen through the audit process and officers have agreed and undertaken some minor amendments predominantly to the accounting notes. At the time of drafting this report the Committee should note, however, that an objection to the accounts has been received by the External Auditor. Depending on the time needed for the Auditor to deal with the objection there may be a delay in the signing of the accounts. Information regarding the objection and the Auditor's findings will be submitted to a future meeting of this committee.

2.3 The Statement of Accounts is produced in accordance with appropriate Regulations, guidance notes and "Codes of Practice" and there is a high level of prescription with regard to their form and content.

2.4 This item is technical by nature and it would be of assistance if any questions that Committee Members may have of a detailed nature could be referred to the Director of Internal Services or Head of Financial Support Services in advance of the meeting in order that officers have time to research any particular issues.

2.5 The Council's financial performance for 2010/11, which is reflected in the accounts presented, has been reported in depth to the Executive on 5 July 2011. The Audit Committee should note that the Accounts have been prepared in line with proposals for Reserves/ Balances which have been agreed by the Executive/Council as part of either the Budget (including MTFP) or "Healthcheck" processes.

2.6 The Committee will be aware that the 2010/11 Accounts have been required to be produced for the first time in line with International Financial Reporting Standards (IFRS). The move to IFRS has required significant changes to both the format and presentation of the accounts including a complete restatement of the prior year comparatives. Work has been ongoing on this “project” since April 2010. It should be noted, however, that in this “transitional” year there has been the need to include a third balance sheet and various reconciliation statements which will not be repeated going forward.

The move to IFRS based Accounts has impacted upon the Council in the following areas;

- Leases.

  A significant amount of work has been undertaken in assessing the Council’s Leasing arrangements (both as Lessee and Lessor). The result has seen the lease of Pinders Lodge reclassified from an operating lease to a finance lease, with the building element being derecognised as an asset and recognised as a finance lease debtor.

  The Council has also recognised an arrangement effectively containing a lease relating to vehicles used in the (former) refuse and recycling contract with Enterprise. This has resulted in the Council recognising the vehicles as an asset in the balance sheet with a finance lease liability.

- Short -Term Accumulating Absences.

  The Council has been required to accrue for any annual leave or flexi leave earned but not taken at 31 March each year. Under Government Regulation the impact upon the Council tax is mitigated by a transfer to the Accumulated Absences Reserve.

- Grants.

  Capital grants and contributions are now required to be recognised as income when they become receivable (as opposed to being held in a deferred grants account and recognised as income over the life of the assets that they were used to fund). The grants are credited to the CI &E Statement and then transferred to the capital adjustment account (where grant conditions have been met and expenditure incurred) or to the capital grants unapplied account (where grant conditions have been met but expenditure not yet incurred).

- Intangible assets.
  Software has been reclassified from a classification of tangible assets to intangible assets.

- Investment Properties.
  The change in accounting requirements means that any change in the fair value of investment properties will now be recognised in the surplus or deficit on provision of services. Subsequent to this change the (former) balance on the Revaluation Reserve (relating to investment properties) has been transferred to the Capital Adjustment Account. The rental income and direct expenditure is now disclosed as part of Financing and Investment Income and Expenditure within the CI&E Statement as opposed to part of the net cost of services.

- Cash and cash Equivalents.
  Cash and cash equivalents now need to be disclosed on the face of the balance sheet. Cash equivalents are short term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

The Accounts now comprise of an explanatory foreword, four core statements together with supporting notes (the first of which now sets out the accounting policies) and a supplementary note on the Collection Fund. The following comments summarise the purposes of the foreword and each main Statement as well as highlighting any key issues.

2.6.1 Explanatory Foreword

The purpose of the foreword is to offer interested parties a guide to the Authority's overall financial position. An overview of Income sources, how the money is spent and spend against each main service area is given in the form of the pie-chart diagrams.

Details of Actual spend compared to the original budget is set out for both Revenue and Capital activities together with comments on significant variances.

2.6.2 Note 1 - Accounting Policies

The purpose of this note is to set out the basis for recognition, measurement and disclosure of transactions and other events in the Accounts.

In line with the move to IFRS based accounting the Council has adopted a number of new accounting policies.

2.6.3 The Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. those which can be applied to fund expenditure or reduce taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the economic cost of providing the Council's services with more details being shown in the Comprehensive Income & Expenditure Statement. An adjustment is made to reflect the difference between the surplus / (deficit) shown and the amount to be charged under statutory provision for council tax setting purposes.

2.6.4 The Comprehensive Income & Expenditure statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

As previously reported asset valuations and pension accounting continue to have a significant impact on the net cost of services and the total Comprehensive Income & Expenditure reported for the year.

In particular the revaluation of Hertford Theatre (following enhancement works) which now reflects a rental value (derived by reference to the underlying income stream) has resulted in a significant reduction in value compared to the previous depreciated replacement cost method. A downward adjustment of £3.9m is reflected within the net cost of services.

Members are reminded that a change (from Retail Price Index to Consumer Price Index) in the basis of up-rating pension benefits from April 2011, together with other favourable actuarial assumptions has resulted in an overall reduction in the Council's pension liabilities of £19.975m at

31 march 2011 which has had a significant impact on the figures reported.

2.6.5 The Balance Sheet

The Consolidated Balance Sheet includes the assets and liabilities of all activities of the Authority. It shows the balances and reserves at the Authority's disposal and its long term indebtedness together with the fixed and net current assets which are employed by the Council in delivering its services.

The value of Property plant & equipment has decreased by some £3.5m over the year reflecting new Capital Investment, disposals and a revaluation of assets (including Hertford Theatre) during the year.

There has been no change to Long Term borrowing during the year. A reduction of £4.2m in investments reflects in year funding requirements, in particular the capital programme.

A reduction in both long term debtors and deferred liabilities is offset by an increase to current assets (debtors) and current liabilities (creditors). These relate primarily to transactions pending on The Causeway disposals settlement which is due in October 2011.

Usable capital receipts have reduced by £3.9m reflecting the funding of the Capital Programme (£5.2m) offset by new in-year receipts of £1.3m.

A significant change to the Balance Sheet is the Pensions liability (now assessed under IAS 19) which has decreased from £42.1m to just under £22.1m (see para 2.64 above).

Revenue reserves and balances have reduced by a modest £30k in the year. This represents a reduction of £1.022m in earmarked reserves (in line with planned assumptions) offset by an increase of £0.992m in the general reserve balance. Overall balances remain within the limits set out within the Council's Reserves Policy.

2.6.5 Collection Fund

Further to the changes in accounting arrangements for Council Tax and NNDR that were introduced in April 2009 the account no longer features within the Council's balance sheet. There remains, however, a statutory requirement for the Council as a billing authority to maintain a separate Collection Fund which shows the transactions in relation to both Non-Domestic Rates and Council Tax.

The Account is included as a Supplementary Note within the overall accounts presented. (Page 55 of the Statement of Accounts).

The balance on the fund (surplus of £417k at 31 March 2011) is attributable to the main precepting authorities in proportion to the precepts levied. This Council's proportion is £62k which will be available to support the Council Tax in 2012/13.

2.6.6 Cash Flow Statement

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Further to the change in accounting arrangements for Council Tax and NNDR (mentioned above), the statement now excludes precept payments to major preceptors together with their share of Council Tax receipts along with the cash collected from NNDR payers and the Council's payment to the NNDR pool.

A net increase is shown in liquid resources in respect of these overall cash movements.

2.6.7 Annual Governance Statement

This Statement is included within the Council's overall Statement of Accounts. See separate report on the Agenda.

3.0 Implications/Consultation

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper "A"**

Background Papers

Final Accounts Working Papers 2010/11.

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ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives *(delete as appropriate):*	**Fit for purpose, services fit for you** *Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.*
Consultation:	Consultations have taken place with relevant Officers and external audit staff.
Legal:	The legal implications are set out within the report.
Financial:	As set out within the report.
Human Resource:	There are no human resource implications.
Risk Management:	Any issues arising through the External Audit process may require further reporting arrangements.