

Agenda Item No: 12

Report No: 156/12

Report Title: Annual Financial Report

Report To: Audit and Standards Committee Date: 27 September 2012

Ward(s) Affected: All

Report By: Director of Finance

Contact Officer(s)-

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Purpose of Report:

To present the Annual Financial Report 2011/2012 for approval following the audit of the Statement of Accounts.

Officers Recommendation:

1. To approve the Annual Financial Report 2011/2012, incorporating the Statement of Accounts, with the Chair signing them on the Committee's behalf.
2. To note the contents of this report.

Reasons for Recommendations

- 1 The Accounts and Audit Regulations 2011 require the Director of Finance and councillors to certify and approve an audited set of accounts for publication by no later than 30 September.

Information

2 Approval of the Accounts

- 2.1 The Audit and Standards Committee is required to approve the Council's statutory annual Accounts, which include statements of its income and expenditure for the year and its balance sheet at the year end. The requirement stems from the Council's Constitution, the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting published each year by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 2.2 The Accounts for 2011/2012 are the second set to be produced in accordance with International Financial Reporting Standards (IFRS). In issuing their guidance for 2011/2012 to local authorities, CIPFA have noted that there is the

potential for confusion as to which elements of published accounting documents are covered by an auditor's opinion. In response to this, this Council's document has been named the 'Annual Financial Report 2011/2012' with the formal 'Statement of Accounts' which is subject to audit being clearly identified within it. The second year of IFRS also introduced new disclosure requirements, notably in respect of 'Heritage Assets' which are now identified separately on the Council's Balance Sheet.

- 2.3** As reported to the meeting of the Audit Committee on 25 June 2012, a draft Annual Financial Report was to be approved by the Director of Finance by 30 June 2012 and presented to the Council's external auditors (PKF) for audit. This took place and PKF commenced their audit at the beginning of July. PKF's work has been substantially completed at the time of writing this report. As PKF have noted in their Annual Governance Report on this Agenda, they anticipate issuing an 'unqualified true and fair opinion' on the Council's financial statements, subject to resolving a number of outstanding issues and final clearance of the audit. This means that the Council's independent Auditor considers that the Council's financial statements give a true and fair view, in accordance with appropriate legislation and relevant accounting guidance, of the financial position of the Council at 31 March 2012 and its income and expenditure for the year.
- 2.4** Section 3 of PKF's report sets out in detail the results of their accounts audit work. PKF's paragraph 3.50 notes that there were a small number of departures within the draft accounts from the expected accounting practice and presentation of the accounting statements and accompanying notes. These departures had no impact on the Council's overall financial performance during the year or its useable reserves and balances and have been amended in the final Annual Financial Report 2011/2012.
- 2.5** PKF's paragraph 3.52 and the accompanying Appendix B summarise two items where the draft accounts differed from the expected treatment, but where officers decided that no change should be made in the 2011/2012 accounts. There is no impact on the Council's overall financial performance during the year or useable reserves or balances, and the impact on the closing values shown in the Balance Sheet at 31 March 2012 was not material. These departures were in respect of the valuations of HRA Community Rooms and an office within the Reed Court Sheltered Housing Scheme which is used by wardens. Officers will reconsider the approach to valuing these assets when preparing the 2012/2013 accounts.
- 2.6** An overview of the Annual Financial Report 2011/2012 is given in Appendix 1, with the full document in Appendix 2. It is recommended that the Audit and Standards Committee should approve the Annual Financial Report, with the Chair signing on its behalf. Following approval, PKF will release their formal audit certificate and the accounts will be published by the statutory deadline of 30 September. In order to minimise costs, a very limited number of paper copies of the Annual Financial Report will be produced. However, it will be made available for download from the Council's website and any interested person who requests a printed copy will be sent one. A summary of the key items within the accounts will also be made available on the website.

Financial Implications

- 3 There are no additional financial implications arising from this report.

Sustainability Implications

- 4 The Sustainability Screening process for this Report took place in September 2012. There are no implications for sustainability.

Risk Management Implications

- 5 I have completed the Risk Management Questionnaire. The issues covered by the recommendations are not significant in terms of risk.

Equality Screening

- 6 The Annual Financial Report can be made available in a variety of formats and in a different language on request. The Equality Screening process for this Report took place in September 2012. There are no implications for equality.

Background Papers

- 7 Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and Guidance Notes for Practitioners.

Appendices

Appendix 1 – Overview of Annual Financial Report 2011/2012

Appendix 2 – Audited Annual Financial Report 2011/2012

Overview of Annual Financial Report 2011/2012

The Annual Financial Report incorporates the formal Statement of Accounts for 2011/2012, which for the second time have been produced in accordance with International Financial Reports Standards (IFRS). It consists of the key elements described below. **NB page references relate to the Annual Financial Report document, not the Agenda page numbers.**

1. Review of 2011/2012 and Outlook for 2012/2013 (pages 3 to 12)

This Review does not form part of the formal Statement of Accounts. Because of the complexity of the formal financial statements, it is helpful to provide a brief explanation of the Council's financial activities for 2011/2012 in 'plain English', although the use of some technical terms is unavoidable. This section compares budgets with actual income and expenditure for the General Fund and Housing Revenue Accounts. It also gives details of:

- Capital Expenditure in the year - total value £61.9m, including an exceptional payment to the Government of £56.7m on the transition to the national Housing self-financing regime
- amounts held in balances at 31 March 2012 - total value £4.8m
- amounts held in earmarked reserves at 31 March 2012 – total value £9.9m

This section ends by outlining the financial challenges that face the Council in 2012/2013.

2. Movement in Reserves Statement (pages 13 to 14)

This Statement shows:

- the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those the Council can apply to fund expenditure or reduce local taxation) and other reserves. The deficit on the provision of services (£53.574m in 2011/2012) shows the true economic cost of providing services, more details of which are shown in the Comprehensive Income and Expenditure Statement. The enormity of this 'deficit' has arisen largely because of the one-off payment to the Government to move to self-financing for Housing referred to above.
- that reversing adjustments (£54.480m in 2011/2012) are made through the accounts to ensure that technical accounting entries have no impact on the basis under which the General Fund and Housing Revenue Account are funded (Council Tax, rents, grants, etc).
- the balances held by the General Fund (£2.063m), Housing Revenue Account (£2.738m) and in earmarked reserves (£9.281m) at 31 March 2012.

3. Comprehensive Income and Expenditure Statement (pages 15 to 16)

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 in accordance with regulations. There are three sections:

- the first section provides information on the cost of operating all of the Council's services, including housing, net of specific grants and income from fees and charges. The service categories used are in accordance with accounting guidance, rather than the Council's own 'portfolios'. The net cost of services in 2011/2012 was £67.378m, including the £56.673m payment to the Government referred to above.
- the second section comprises items of income and expenditure relating to the Council as a whole and not to any individual service. This includes income from the Council Tax. After taking these items into account the overall 'deficit' on the provision of services in 2011/2012 reduces to £53.574m.
- the third section introduces other items that have contributed to the movement in the net worth of the Council (ie the total value of its assets less its liabilities). The total of this 'other income and expenditure' in 2011/2012 was a net cost of £1.633m, mainly comprising actuarial losses in respect of the Pension Fund.

The combination of all three sections in the Statement shows that the total value of comprehensive income and expenditure in the year on an accounting rather than funding basis, was £55.207m.

4. Balance Sheet (pages 16 to 17)

This provides a snapshot of the Council's financial position as at 31 March 2012 and includes the General Fund and Housing Revenue Account balances. It sets out what the Council owns, owes and is owed at that point in time, along with details of its balances and reserves.

Significant items are:

- Property, Plant and Equipment – valued at £203.087m. The Council commissions a complete independent valuation of its property assets every five years (different cycles apply to General Fund and HRA property), with the valuer also carrying out a 'desk-top' review annually to ensure that the impact of significant changes in the property market are reflected fairly in the Balance Sheet. When valuing Council-owned housing, the valuer takes into account the fact that each house or flat is being used as social housing and applies a 'discount factor' against the open-market value.
- Heritage Assets – the value of these assets, which the Council holds principally for their contribution to knowledge and culture, is now identified separately for the first time. At 31 March 2012 the net value of these assets was £3.187m.
- Short Term Investments - £4.334m. This excludes the residual amount of the Council's deposit with the Icelandic bank, Landsbanki Islands hf, which is shown as a Long Term Investment because repayments are likely to be phased over a number of years.
- Short Term Debtors - £8.008m. This includes amounts owed by Government departments (grant payments, monthly VAT

reimbursement, etc), as well as individuals (sundry debtors, council taxpayers, housing tenants)

- Cash and Cash Equivalents - £1.262m credit balance. Although the Council held a small cash surplus at 31 March 2012, the need to account for payments in transit resulted in a technical 'overdrawn' position on the Balance Sheet..
- Short Term Creditors - £3.393m. This includes amounts owed to Government departments and other local authorities as well as suppliers and contractors
- Long Term Borrowing - £56.673m. This value is £51.673m higher than at 31 March 2011 and reflects the housing reform payment to Government at the end of March 2012, the majority of which was funded by new long-term borrowing.
- Defined Pension Liability - £13.929m. This is the future liability to pay pensions to employees netted down by the value of assets held in the pension fund. The liability has increased by £4.3m in 2011/2012 primarily as a result of changes in actuarial assumptions.
- Total Usable Reserves - £17.336m. Over the course of the year, £0.906m was added to reserves in net terms.

5. Cash Flow Statement (page 19)

This summarises the total receipts and payments of cash arising from the Council's activities in the year ie it excludes amounts which the Council owes but has not yet paid and is owed but has not yet received.

6. Notes to the Financial Statements (pages 20 to 109)

These explain the significant items within each of the core elements along with an explanation of the accounting policies that were followed when compiling and presenting the Accounts.

7. Housing Revenue Account and supporting notes (pages 110 to 118)

This statutory 'ring-fenced' account reports for the year on the management of the Council's housing stock. It shows the major elements of housing running costs: maintenance (£3.785m in 2011/2012); 'negative' housing subsidy (£3.715m), management (£2.698m) and capital financing costs, and how these are met by rents (£13.009m), service charges (£0.921m) and other income (£0.460m). As explained elsewhere, the reported financial performance of the HRA in 2011/2012, a deficit of £54.610m, includes the one-off capital payment of £56.673 to the Government. After allowing for this and other technical accounting adjustments, the 'true' position on the HRA was a small surplus of £0.162m in the year.

8. Collection Fund Statement and supporting notes (pages 119 to 121)

This shows the Council's transactions in relation to the collection of non-domestic rates (£21.015m) and council tax (£63.711m), and their payment over to the Government and 'precepting authorities' of East Sussex County Council

(£44.599m), Sussex Police Authority (£5.330m), East Sussex Fire Authority (£3.152m) and Lewes District Council (£10.176m).

9. Statement of Responsibilities for the Statement of Accounts (page 122)

This explains the responsibilities of the Council and the Director of Finance in respect of the management and reporting of financial affairs.

10. Independent Auditor's Report (pages 123 to 125)

As set out in PKF's Annual Governance Report, this explains the scope of PKF's audit and carries the auditor's formal certificate.

11. Annual Governance Statement (AGS) (pages 126 to 133)

The Accounts and Audit Regulations require the AGS to 'accompany' the formal Statement of Accounts. It should be noted that it not covered by the Independent Auditor's Report.

12. Glossary (pages 134 to 142)

Definitions of terms which appear in the Annual Financial Report.