

Audit Committee – 29th June 2010

Report of the Treasurer

Statement of Accounts 2009/10

Purpose of Report

1. To present the Statement of Accounts to the Audit Committee for consideration and approval, and to inform the Audit Committee of the progress of the audit of the accounts.

Background

2. The Accounts and Audit Regulations 2003 (as amended) set out the requirements for the production and publication of the Statement of Accounts, and specifically require that the Council considers the accounts before approving them. The Council has delegated the responsibility for the approval of the Statement of Accounts to the Audit Committee. The Statement of Accounts, and the audit of them, are the main formal and public report on the financial standing of the authority.
3. The accounting framework for local authority accounts is moving to international standards (IFRS) from the 2010/11 accounts. As a first stage, the new rules have been applied to PFI and similar contracts in the 2009/10 accounts. Details are given below, in paragraph 5.

Statement of Accounts

4. The Statement of Accounts is attached as Appendix D, preceded by summaries setting out the main features:
 - Income and Expenditure Account and Statement of Movement on General Fund Balance (all the transactions on the General Fund) - (Appendix A)
 - Balance Sheet - (Appendix B)
 - Housing Revenue Account - (Appendix C)
5. These accounts have been prepared in accordance with the Accounting Code of Practice 2009 produced by the Chartered Institute of Public Finance and Accountancy (CIPFA). There are areas of change this year as follows:
 - Private Finance Initiative (PFI) to IFRS accounting rules
 - The criteria for including assets provided under PFI and similar schemes on the user's balance sheet is now based on control of the assets, rather than on risk and reward. This affects the two schools, Summerhill and

Colley Lane, built under the Paragon scheme, and the Waste to Energy Plant at Lister Road Depot. Each of these assets is now shown on the balance sheet, and is subject to periodic revaluation and to charges for depreciation, as with any Council-owned asset. The initial value of the asset matched the liability to reimburse the contractor over the life of the agreement.

- Accounting for Council Tax
 - There have been minor changes to the way council tax income is shown in the Income and Expenditure Account – the amount shown is now the actual rather than the statutory amount, with the small difference being carried on the balance sheet. There are also changes in the treatment of debtors and creditors relating to the precepting authorities (Fire and Police)
 - The description of the accounts has changed from “presents fairly the financial position of the authority” to “presents a true and fair view”. This reflects the convergence of local authority accounts with commercial practice, which uses the terms true and fair view. The changed wording does not imply any change in standards or audit thoroughness.
 - A new government regulation requires disclosure of much greater detail on the remuneration of the most senior officers. On the basis of guidance issued, we have treated this requirement as applying to the Chief Executive and the Directors.
6. A valuation of the shares in Birmingham Airport held by the metropolitan districts is being undertaken by Birmingham. When this valuation is received, any necessary amendment of the accounts will be made.
7. The effect of the economic recession is reflected in the Income and Expenditure Account, with increased amounts of housing and council tax benefit paid. These expenses are met by specific government grants, and so do not affect the net position.

Income and Expenditure Account (I & E) - (Appendix A)

8. This account is presented in four sections, and is designed to be comparable across different authorities:
- **Net Cost of Services** analyses expenditure, income (from fees, charges and grants for specific purposes), and net expenditure for services, totalling £220.7m. The service lines are those set out in the Best Value Accounting Code of Practice (BVACOP) rather than Dudley’s structure of directorates. The costs include increases in liabilities for future pensions, instead of actual contributions to the pension fund or payments of pensions.
 - The second section, **Net Operating Expenditure**, contains those items which relate to the authority as a whole, such as interest and levies, and brings expenditure to a total of £273.0m.

- The third section **External Funding** lists sources of general government grant and income from the Collection Fund, totalling £259.9m. Further details of the general government grants are given in Note 13 to the Core Statements.

The net total of all the items above leaves a deficit on the Income and Expenditure account of £13m. This is a technical deficit intended to represent the Council's revenue position as it would be if calculated according to generally accepted accounting practice (GAAP).

- **the Net Additional Amount to be credited to revenue to calculate the General Fund Balance** consists of a single figure reflecting a number of significant differences between GAAP and the requirements of statute as they apply to a local authority. It is designed to ensure that charges to taxpayers are not affected by the technical presentation of figures in the first three sections. The total adjustment is £11.1m.
9. The effect on the Income and Expenditure Account of all these movements and adjustments is a deficit for the year of £2.0m. This deficit has to be funded from the General Fund Balance, leaving a balance of £3.3m to be carried forward.
 10. At Cabinet on 30th June 2010, I will report a total Council outturn of £233.1m. The form of presentation in that report will differ from the format required for the Income and Expenditure Account. The figures in the two formats are reconciled below:

Table 1

	£m
Net Operating Expenditure (Income and Expenditure Account)	273.0
Income treated as general grant in Income and Expenditure Account, but included in Net Revenue Expenditure in Outturn reports.	(29.8)
Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance	(11.1)
Add back transfers to General Fund Balance from other Reserves	1.0
Total Outturn (Service Costs net of general grants)	233.1

Balance Sheet (Appendix B)

11. The balance sheet shows that total net assets has reduced, from £824m at 31st March 2009 to £688m at 31st March 2010. This reduction can be largely explained by an increase in the pension liability, due to market conditions at the year end. It should be stressed that the interim figure for pension liability represents a point in time, and not how the Fund necessarily looks going forward.
12. The value of fixed assets has risen slightly from £1,576m to £1,602m. Note 14 to the core statements gives details of the movements for each category of asset. This includes revaluations at the beginning of the year, arising from the rolling programme of revaluations, of some £11m. (These are shown on two lines, one in the top section and one in the depreciation section.) Expenditure (i.e. Additions) in the year was some £79m.

13. Net current liabilities, i.e. the excess of current liabilities over current assets, have increased from £125m to £132m. The main factor contributing to this is a reduction in cash and cash equivalents in line with the Treasury Management Strategy. Creditors and debtors have both increased.
14. Long Term Borrowing stands at £413m. This figure includes £207m of debt relating to the former West Midlands County Council. This liability is met by the constituent authorities, shown as a long term debtor in note 19 to the core statements. (Dudley's own share of this liability is £17m.)
15. The General Fund balance has reduced by £1.994m, from £5.332m to £3.338m, as discussed in paragraph 8 above.
16. The reserves held by Dudley schools have increased overall by £3.5m, to £15.8m. These funds are only available for education, and not for other Council purposes. They include reserves relating to Community and Extended Use activities, and the balance of Dedicated Schools Grant. Details are shown in Note 33 to the Core Statements.
17. Other general fund reserves (i.e. those earmarked for specific purposes) have increased by £9.8m, to £37.7m. Some of the increase is due to the reward monies which we anticipated at the year end would be received in respect of successful achievement of Local Area Agreement (LAA) targets. This would have been expended by the Council and its partners on local priorities over the coming years. The recent announcement of cuts to government funding have included a reduction in these reward monies. Under accounting rules, this does not change the treatment of the anticipated grants on the balance sheet at 31st March 2009. There is also an increase in the capital resources reserve, which holds monies put aside for future capital projects. The reserves give the Council flexibility in meeting future events, both planned and unforeseen.

Housing Revenue Account (Appendix C)

18. This ring-fenced account for council housing transactions is presented in a layout reflecting that of the Income and Expenditure Account and Statement of Movement on General Fund Balance.
19. There is an overall deficit for the year of £0.8m, leaving reserves available for housing purposes of £3.3m. These reserves will be required to meet the Decent Homes Standard and other services to tenants.

Dedicated Schools Grant

20. Schools are funded by Dedicated Schools Grant (DSG) paid to local education authorities by the Department for Children, Schools and Families, instead of from general grants. Note 4 to the Core Statements shows how the DSG was used.

Pay and Grading

21. Dudley is close to completing a major Pay and Grading Review to comply with the Single Status Agreement. The actual cost of this is still to be determined, but a reserve has been set up to reflect our best estimate at this time of the costs we may have to meet.

Although the final total cost of Equal Pay settlements is not yet known, the Council has utilised directions given by the Government in 2009/10 to treat a further £3.2m of its eventual total cost as capital expenditure – so that the full amount of the latest total estimated liability of £87.2m has now been capitalised.

22. In accordance with Regulations and CIPFA guidance, if actual costs incurred are greater than the level of capitalisation, the difference will be a charge to revenue in the year that the costs are incurred.

Pensions Reporting

23. The accounts follow the requirements of Financial Reporting Standard 17 (FRS 17), replacing actual payments of pension and contributions to the pension fund with liability increases during the year. These adjustments to service expenditure are reversed in the Statement of Movement on the General Fund Balance, so that there is no effect on tax-payers. Details are shown in note 6 to the Core Statements.
24. The net pension liability has increased by £141m to £380.9m. The main constituent in this increase is the net actuarial losses of £130.1m, mainly due to market conditions at the end of the year. Details of the separate movement of assets and liabilities, and of assumptions on longevity, are given, as required by the reporting standard.
25. It should be noted that the main Local Government Pension Scheme is fully revalued every three years, and contribution rates set to bring the scheme into balance over time.

Audit of the Accounts

26. The audit of the accounts for 2009/10 is underway. Any material amendments to the accounts arising from the later stages of the audit will be reported to this Committee at its next meeting, on 23rd September.
27. The Code of Audit Practice requires the auditors to report the results of their audit work to the approving body before signing their audit opinion. This report will also be made at the September meeting of this Committee.
28. A “letter of representation” is provided to the auditors each year, assuring auditors in some detail that all material information has been made available to them. This will be signed by the Treasurer, relying in some matters on assurances by the Director of Corporate Resources. Our auditors ask that the letter is also signed by the Chair of the Audit Committee. The text will be circulated with the committee papers for the September meeting, and any queries members may have will be addressed beforehand or at the meeting.

29. The report of the auditors to the September meeting of the Audit Committee will cover wider aspects of the 2009/10 audit, i.e. it will include the audit conclusion on the Council's arrangements for securing value for money.

Finance

30. This report is entirely financial in content, but does not give rise to any direct costs.

Law

31. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1972, part 2 of the Audit Commission Act, 1998, and regulations made thereunder.

Equality Impact

32. The proposal takes account of the Council's policy in relation to equal opportunities.

33. With regard to children and young people:

- There is no direct effect of the proposals on children and young people.
- There has been no specific consultation with children and young people.
- There has been no direct involvement of children and young people in developing the proposals.

Recommendation

34. It is recommended that:-

- the Committee consider the Statement of Accounts.
- the Committee approve the Statement of Accounts.
- The Chair of the Committee signs and dates the Statement of Accounts to give evidence of the approval above.



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Treasurer

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List of Background Papers
Working and supporting papers for the accounts.