

Audit Committee – 25th June 2008

Report of the Director of Finance

Statement of Accounts 2007/08

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 Annual Governance Statement, which is presented to this Committee in a separate Report, will be published with the accounts.

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 (Appendix A)
 - Balance Sheet (Appendix B)
 - Housing Revenue Account (Appendix C)
5. The accounts have been prepared in accordance with the Accounting Code of Practice 2007 produced by the Chartered Institute of Public Finance and Accountancy (CIPFA). There are two main areas of change this year:
 - Technical changes to the way in which we account for premiums and discounts previously paid or received on early repayment of debt. These changes have had a small favourable effect on revenue – around £0.2m in 2007/08.
 - Technical changes to the way in which we account for revaluations of Fixed Assets. These changes have no effect on the revenue position of the Council.

6. We and the other West Midlands Metropolitan authorities are currently awaiting guidance from Birmingham on the valuation of the airport shares. Values in the accounts may have to be amended when this information is received. There is no impact on the revenue position of the Council.

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

7. This account is laid out in four sections, and is designed to be comparable across different authorities:
- The first section leads up to the Net Cost of Services. This shows gross expenditure, income (from fees, charges and grants for specific purposes), and the net expenditure for each service – totalling £244.6m. 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, leading to Net Operating Expenditure of £288.4m, contains those items which relate to the authority as a whole, such as interest and levies.
 - The third section lists sources of general government grant and the Collection Fund Demand, totalling £204.3m. This leaves a deficit on the Income and Expenditure account of £84.1m. 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 fourth section consists of a single figure – the Net Additional Amount to be Credited to revenue to calculate the General Fund Balance. This figure reflects 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 £80.6m and this is analysed in the table below.

Table 1

	£m
Equal Pay Back Pay (see paras 20-21)	48.3
Technical capital accounting adjustments	10.9
Adjustments in relation to the Housing Revenue Account and housing capital receipts	15.4
Adjustments in respect of pension liabilities	10.3
Movements in earmarked reserves	(4.3)
Total	80.6

8. The bottom line of the Income and Expenditure Account, after all the movements and adjustments outlined above, is a deficit for the year of £3.6m, which is the amount to be funded from the General Fund Balance, leaving a balance of £7.9m as at 31st March 2008.
9. At Cabinet on 11th June 2008, I reported a total Council outturn of £210.841m. The form of presentation in that report differs from the format required for the Income and Expenditure Account. The figures in the two formats are reconciled below:

Table 2

	£m
Net Operating Expenditure (Income and Expenditure Account)	288.4
Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance (see Table 1 above)	-80.6
Add back transfers to General Fund Balance from other Reserves	3.0
Total Service Costs (Outturn)	210.8

Balance Sheet (Appendix B)

10. The balance sheet shows that total net assets has increased by some £98m, from £816m at 31st March 2007 to £914m at 31st March 2008.
11. The value of fixed assets has risen from £1,367m to £1,623m. Note 17 to the core statements gives details of the movements for each category of asset. This shows revaluation of some £222m, mainly due to the five-yearly full revaluation of council dwellings, and expenditure in the year of some £71m.
12. Net current liabilities, i.e. the excess of current liabilities over current assets, have increased from £98m to £112m. There are a number of factors contributing to this change. The main one is the additional provision of £48.3m for equal pay back pay (see paragraphs 20 and 21). This is offset by the reduction in the Housing Repairs Account to fund planned work on the housing stock, and changes in cash and cash equivalents in line with the Treasury Management Strategy.
13. Long Term Borrowing stands at £434m. This figure includes £226m of debt relating to the former West Midlands County Council. The liability is met by the constituent authorities, shown as a long term debtor in note 22 to the core statements.
14. The General Fund balance has reduced by £3.561m, from £11.465m to £7.904m, as discussed in paragraph 8 above.

15. The reserves held by Dudley schools have increased overall by £2.3m, to £13.5m. These funds are only available to the schools, 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 36 to the Core Statements.
16. Other general fund reserves (i.e. those earmarked for specific purposes) have increased by £2m, to £27.5m. The reserves give the Council flexibility in meeting future events, both planned and unforeseen.

Housing Revenue Account (Appendix C)

17. 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.
18. There is a small deficit for the year of £0.150m, leaving reserves available for housing purposes of £6.4m¹. These reserves will be required to meet the Decent Homes Standard by 2010.

Dedicated Schools Grant

19. From 2006/07, schools have been 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 shows how the DSG was used.

Equal Pay Back Pay

20. Dudley is undertaking a major Pay and Grading Review to comply with the Single Status Agreement. The actual cost of the Single Status Agreement and the timing of any backdated equal pay settlements have still to be determined. Provision for estimated costs was made in 2006/07, and further provision was made in 2007/08, mainly as a result of liability for back payments to schools staff having been clarified. Directions from the Government to treat part of the cost of back payments as capital expenditure have been received in both 2006/07 and 2007/08.

¹ The outturn report to Cabinet on 11th June 2008 shows a reserve of £5.6m. This is because the outturn report excludes funds earmarked for the completion of specific projects.

21. The effect in the accounts is summarised below.

Table 3

	2006/07	2007/08	Total
	£m	£m	£m
Make provision for estimated costs of equal pay back pay (within current liabilities on the balance sheet). The cost of making the provision is shown in Income and Expenditure, but reversed out in the Statement of Movement in the General Fund Balance so that there is no immediate impact on Council Tax.	46.2	48.3	94.5
Use capitalisation directions. This reduces capital related reserves on the balance sheet. This is to be charged back to revenue at the rate of 4% per year.	(22.3)	(16.7)	(39.0)
Defer the remainder of estimated costs. This shows in the balance sheet as the Equal Pay Back Pay Account.	(23.9)	(31.6)	(55.5)
Net direct effect on Revenue in the year	0	0	0

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

Pensions Reporting

22. 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.
23. The net pension liability has increased to £252.2m. The main constituent in this increase is the actuarial losses of £66.4m, due partly to market conditions and partly to changed assumptions about life expectancy.
24. 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

25. The audit of the accounts for 2007/08 is underway. Any material amendments to the accounts arising from the later stages of the audit will be reported to this Committee at the next meeting on 25th September.
26. The 2005 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 will happen at the September meeting of this Committee.
27. 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 is signed by the Director of Finance, relying in some matters on assurances by the Director of Law and Property. 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.
28. The report of the auditors to the September meeting of the Audit Committee will cover all aspects of the 2007/08 audit, i.e. it will include the Value for Money conclusion, and the statutory report on the 2007 Best Value Performance Plan.

Finance

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

Law

30. 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.

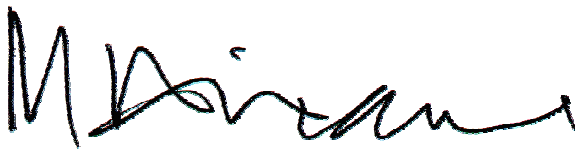
Equality Impact

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

33. 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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List of Background Papers

Working and supporting papers for the accounts.