

Audit Committee – 29th June 2009

Report of the Interim Director of Finance

Statement of Accounts 2008/09

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 (all the transactions on General Fund) (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 2008 produced by the Chartered Institute of Public Finance and Accountancy (CIPFA). There are only minor areas of change this year:
 - The pensions note (Note 6 to the core statements) includes additional information on the actuaries' assumptions of life-expectancy, and more detailed analysis of the movement on assets and liabilities during the year.
 - There is a category of expenditure which is funded from capital resources but does not result in assets to the authority. An example is the payment of renovation grants to private householders. These transactions, formerly called

deferred charges, have been renamed Revenue Expenditure Funded from Capital Under Statute (REFCUS).

6. An independent view has confirmed that no reliable estimate can be made of the value of shares in Birmingham Airport and therefore they have been retained at cost.

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 £242.9m. 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 £310.5m, contains those items which relate to the authority as a whole, such as interest and levies. This section also includes a notional loss on disposal of assets which mainly relates to the transfer of three Halesowen schools to a trust during the year.
 - The third section lists sources of general government grant and the Collection Fund Demand, totalling £242.3m. Fuller details are given in Note 17. There is a change in 2008/09 in that a number of grants specific to particular services have been replaced by Area Based Grant (£21.1m in 2008/09), which can be used without restriction, and is therefore shown in this section. The net total of spend and external funding leaves a deficit on the Income and Expenditure account of £68.2m. 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 £65.7m and this is analysed in the table below.

Table 1

| | £m |
|---|-------------|
| Technical capital accounting adjustments, bringing the charge to tax-payers into line with statute. Examples are reversing out the notional depreciation charge to services, and taking the notional loss on school assets transferred to trusts back out of the accounts | 47.2 |
| Adjustments in respect of pension liabilities - ensuring that the charge to tax-payers is equal to actual employers contributions, in line with statute | 15.7 |
| Other | 2.8 |
| Total | 65.7 |

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 £2.6m, which is the amount to be funded from the General Fund Balance, leaving a balance of £5.3m as at 31st March 2009.
9. At Cabinet on 17th June 2009, I reported a total Council outturn of £226.444m. 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) | 310.5 |
| Income treated as general grant in Income and Expenditure Account, but included in Net Revenue Expenditure in Outturn reports. | (21.4) |
| Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance (see Table 1 above) | (65.7) |
| Add back transfers to General Fund Balance from other Reserves | 3.0 |
| Total Outturn (Service Costs net of ABG) | 226.4 |

Balance Sheet (Appendix B)

10. The balance sheet shows that total net assets has reduced very slightly, from £913m at 31st March 2008 to £912m at 31st March 2009.
11. The value of fixed assets has risen slightly from £1,615m to £1,631m. Note 18 to the core statements gives details of the movements for each category of asset. This shows revaluation at the beginning of the year of some £7m, offset by year-end impairments, as a result of economic conditions, of £5.6m. Expenditure in the year was some £71m. The £41m disposal value is largely due to the removal from the balance sheet of the Halesowen schools which achieved trust status during the year.
12. Net current liabilities, i.e. the excess of current liabilities over current assets, have increased from £111m to £125m. The main factor contributing to this is a reduction in cash and cash equivalents in line with the Treasury Management Strategy. Creditors have also fallen, partly reflecting the policy of rapid payments as a response to economic conditions.
13. Long Term Borrowing stands at £434m. This figure includes £221m 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 23 to the core statements.
14. The General Fund balance has reduced by £2.572m, from £7.904m to £5.332m, as discussed in paragraph 8 above.

15. The reserves held by Dudley schools have fallen overall by £1.8m, to £12.2m. 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 37 to the Core Statements.
16. Other general fund reserves (i.e. those earmarked for specific purposes) have increased by £0.3m, to £27.8m. 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 an overall deficit for the year of £2.4m, leaving reserves available for housing purposes of £4.1m¹. These reserves will be required to meet the Decent Homes Standard and other services to tenants.

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 to the Core Statements 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. A prudent provision of £91m has been made for estimated costs. Directions from the Government to treat part of the cost of back payments as capital expenditure have been received in 2006/07, 2007/08, and 2008/09.
21. 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

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.

¹ The outturn report to Cabinet on 17th June 2009 shows a reserve of £2.5m. This is because the outturn report excludes funds earmarked for the completion of specific projects.

23. The net pension liability has fallen to £235.2m. The main constituent in this decrease is the net actuarial gains of £35.4m, mainly due to market conditions (of high bond yield and low inflation) at the beginning of the year. Extra detail of the separate movement of assets and liabilities, and of assumptions on longevity, are given, in response to amendments to the reporting standard.
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 2008/09 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 24th 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 will be signed by the Interim Director of Finance, relying in some matters on assurances by the Interim Director of Law, Property and Human 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.
28. The report of the auditors to the September meeting of the Audit Committee will cover all aspects of the 2008/09 audit, i.e. it will include the audit conclusion on the Council's arrangements for securing value for money in the use of resources.

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.