

COMMITTEE Audit Committee	DATE 28th June 2011	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Chris Naylor – Corporate Director of Resources		TITLE: Draft Statement of Accounts 2010-2011		
ORIGINATING OFFICER(S): Alan Finch – Service Head, Corporate Finance		Ward(s) affected: N/A		

Special Circumstances and Reasons for Urgency

- The report was unavailable for public inspection within the standard timescales set out in the Authority's Constitution, because of continuing work to finalise the treatment of items impacted by changes in recommended practice.
- To comply with CIPFA best practice, the Corporate Director of Resources recommends that the Audit Committee have the opportunity to comment on the draft Statement of Accounts prior to submission to the auditors.

1. SUMMARY

1.1 This report presents the Authority's draft Statement of Accounts for the financial year ending 31st March 2011, prior to audit. This draft version has been circulated to provide Members information on the Council's financial position. Minor changes may become necessary to the accounts as they are reviewed, but these are not expected to have any material impact on the Council's overall financial position.

2. RECOMMENDATIONS

Audit Committee is recommended to:-

2.1 Note the draft Statement of Accounts for the financial year ending 31st March 2011.

LOCAL GOVERNMENT ACT, 2000 (SECTION 97) LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Name and telephone number of holder and address where open to inspection

*Closure of Accounts Working Files
Accounts & Audit Regulations 2003 Approval of Accounts
Best Value Accounting Code of Practice
HRA Closure of Accounts Working Papers
Capital Working Papers*

*Kevin Miles, Ext. 6791
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Kevin Miles, Ext. 6791
Paul Leeson, Ext. 4995
Alison Gebbett, Ext. 3360*

3. BACKGROUND

- 3.1 In March, officers reported on the progress made in implementing International Financial Reporting Standards (IFRS). This report now tables the draft accounts for 2010/11 that have been compiled with the application of these standards.
- 3.2 To follow CIPFA best practice, Audit Committee is requested to note and comment on the draft Statement of Accounts which will then be submitted to the Audit Commission.
- 3.3 The main audit is due to commence on 1st July, 2011. The audited accounts, together with the audit opinion and report, will then be submitted to the Audit Committee on 27th September for consideration and formal approval.
- 3.4 Under legislation, if there are any material amendments arising as a result of the audit, these will be reported to the September Audit Committee. The auditor is also required to make a report setting out any matters that are not material to the accounts but are more than merely trifling. If necessary, this report will be made to the Audit Committee at the end of September.

4. STATEMENT OF ACCOUNTS 2010-2011

- 4.1 The draft Statement of Accounts is attached to the report as Appendix 1. An early draft was circulated prior to the Committee meeting but a more current draft will be tabled at the meeting. It is not anticipated that there will be any material variances between the two drafts.
- 4.2 The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the "Code of Practice on Local Authority Accounting" published by the Chartered Institute of Public Finance and Accountancy (CIPFA). A summarised version of the accounts will also be published once the audit has been completed and the accounts have been formally approved.
- 4.3. The Council's 2010-11 outturn report, detailing net expenditure against individual service budgets, will be reported to the 6th July Cabinet meeting.
- 4.4. The accounts are an important aspect of the financial management of the Council as they set out the Council's financial position as at 31st March each year. They include details of the main assets and liabilities, and an explanation the year-on-year movements. The accounts also form the basis of the Medium Term Financial Planning process.
- 4.5. Set out below are the main elements of the Statement of Accounts with a brief explanation of the information contained in each element.

<p>Comprehensive Income and Expenditure Account</p>	<p>This summarises the revenue activities of the Council during 2010/11 and shows the day-to-day costs of services provided by the Council together with charges made to the revenue accounts in respect of the use of assets, costs of borrowing and income from investments. This includes the activities of the General Fund and the Housing Revenue Account.</p> <p>It should be noted that the analysis of service income and expenditure is one used by all local authorities for comparison purposes and differs from the Council's own budget and service organisational structure.</p> <p>The draft accounts show a gross spend in 2010/11 of £1.56 billion with a net surplus of £164m. This surplus includes a number of accounting entries which do not form part of the Council's actual General Fund and HRA balances. These accounting entries such as depreciation and pension fund adjustments are then 'reversed out' in the Movement in Reserves Statement.</p>
<p>Movement in Reserves Statement</p>	<p>The Movement in Reserves Statement is a new statement under IFRS – it combines the Statement of Movement on the General Fund Balance and the Statement of Total Recognised Gains and Losses. The statement analyses the movements in reserves as they appear on the balance sheet.</p> <p>The adjusted reduction in the General Fund Balance was £3.8m leaving a balance as at 31st March 2011 of £23.4 million</p> <p>Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes. These total £109.4m including school balances of £23.4 million and £7.4 million of un-spent grants balances carried forward.</p>

	<p>The accounts assume certain transfers to reserves requested by Directorates which have yet to be formally approved, and these will be reported in full to the July Cabinet. In the event that Cabinet does not agree to these transfers, the accounts will be adjusted as part of the audit process subject to the auditor's agreement.</p>
<p>Balance Sheet</p>	<p>The Balance Sheet shows the assets and liabilities of the Council as at 31st March 2011. The value of the assets of the Council must equal the value of liabilities plus reserves.</p> <p>Assets include property, plant and equipment, cash and investments and any debts owing to the Council.</p> <p>Property, plant and equipment has reduced in value by £212 million; this is mostly due to a reduction in the value of the Council owned housing stock. Communities and Local Government (CLG) issued guidance that housing stock is to be valued at 25% of market value (vacant possession value) rather than 37% as used in previous guidance.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure and any debts owed by the Council.</p> <p>The net assets of the Council (assets less liabilities) were £1.3 billion, which was a slight increase from 31st March 2010 when the figure was £1.1 billion. The main reason for the increase is that the pension fund liability has reduced following the reduction in future inflation factors.</p>
<p>Housing Revenue Account</p>	<p>The Housing Revenue Account is a separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council's social housing stock of some 12,500 dwellings.</p>

	<p>The HRA balance as at 31st March 2011 is £12.8 million; this was a small reduction of £0.2 million for the year. In addition the HRA has ring-fenced capital balances of £6.3 million</p>
Group Accounts	<p>The Group Accounts show the financial position of the Council's 'Group'- comprising the Council itself plus its share of any controlled Companies. The Council incorporates Tower Hamlets Homes (THH) within its Group Accounts. THH is 100% owned by the Council and does all of its business with the Council.</p>
Collection Fund	<p>The Collection Fund is a separate account detailing Council Tax collections (including those collected on behalf of itself, the Greater London Authority) and National Non-Domestic Rates (NNDR) which is collected on behalf of the Government. The account shows the distribution of the amount of Council Tax collected between the Council and the GLA and the payment of non-domestic rates to the Government pool. The statement now includes the effect of supplementary business rates raised on organisations with a rateable value in excess of £50,000. The supplementary business rates is payable to the GLA to fund the Crossrail project.</p> <p>Any surplus or deficit on the Fund is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund. The Fund showed a deficit of just over £1 million for 2010/11, but this still leaves an overall surplus on the Fund carried forward of £4.3 million.</p>
Cash Flow Statement	<p>The Cash flow Statement details the overall cash movements (inflows and outflows) over the year.</p>
Pension Fund Accounts	<p>The Pension Fund accounts are separate from the rest of the Council's accounts and show the income (pension contributions and investment returns) and expenditure (pension payments) for the year together with the assets and liabilities of the Pension Fund as at 31st March 2011.</p>

	<p>The Fund is audited at the same time as the Council's main accounts but are subject to a separate audit opinion. The market value of the assets of the fund at the end of the year was £812 million (an increase of 7.9% from the £753 million March 2010 valuation). This increase largely reflects the market conditions affecting investments over the last year.</p> <p>The results of the triennial revaluation completed during the year estimated a funding deficit of £305million and a funding level of 71%.</p> <p>The Pensions Fund accounts will be considered by the July Pensions Committee.</p>
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- 4.5. The Statement of Accounts also incorporates the Annual Governance Statement, which is the subject of a report elsewhere on this agenda.
- 4.6. Members are now invited to note the accounts and to contact Financial Services if there are any queries that arise after the Committee Meeting. The auditor is expected to issue his opinion in September. Any material issues arising from the audit will be reported back to the Committee. Any immaterial but more than merely trifling issues will be reported to the Audit Committee.

5. INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)

- 5.1. This is the first full set of accounts that have been compiled under International Financial Reporting Standard (IFRS). Members were briefed on the main changes in March.
- 5.2. The IFRS introduces many changes to the way results are reported, but the main changes which will make a noticeable difference to the way information is used are:
- Increasing the level of detail required in reporting the valuation of assets.
 - Enhancing the level of information required to be reported on leases and contracts.
 - Providing more information in the accounts which relates back to Services and Directorates, so that the performance of budget managers will become clearer from the accounts.

- Increasing the level of reporting required relating to employee benefits, in particular the valuation of untaken leave rolled over to a future financial year.

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 6.1 The comments of the chief financial officer are incorporated within this report.
- 6.2 There are additional costs incurred in adopting IFRS, both in relation to the project and to maintain processes and systems and continue to report on the new basis. These will be contained within existing budget resources.

7. RISK MANAGEMENT

- 7.1 There are no specific risk management implications.

8. CONCURRENT REPORT OF THE CHIEF LEGAL OFFICER

- 8.1. The Accounts and Audit Regulations 2003 specify the process by which the authority's accounts are initially approved and then examined by the external auditor. This process and the dates by which the various stages have to be achieved are set out in paragraph 3 of the report and are binding on the authority.

9. ONE TOWER HAMLETS CONSIDERATIONS

- 9.1 The Statement of Accounts is a single statement of the financial position of the whole Council which is potentially of interest to all individuals and organisations which have dealings with the Council.
- 9.2. The statements are published on the Council's website both in draft and in audited form. Interested parties have the right to inspect the accounts during the audit and local electors have the right to submit questions to the auditor. Details of these rights are published in local newspapers at appropriate stages.

10. ANTI-POVERTY CONSIDERATIONS

- 10.1 There are no specific anti-poverty implications arising out of this report.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

- 11.1 There are no SAGE implications arising out of this report.