

<i>COMMITTEE</i>	<i>DATE</i>	<i>CLASSIFICATION</i>	<i>REPORT NO.</i>	<i>AGENDA NO.</i>
Audit Committee	29th June 2010	Unrestricted		
<i>REPORT OF:</i>		<i>TITLE:</i>		
Chris Naylor – Corporate Director of Resources		Draft Statement of Accounts 2009-2010		
<i>ORIGINATING OFFICER(S):</i>		<i>Ward(s) affected:</i>		
Alan Finch – Service Head, Corporate Finance		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.
- The Corporate Director of Resources recommends that a committee approval of the Draft Statement of Accounts is given at this meeting in order to meet the statutory deadline of 30th June 2010.

1. SUMMARY

- 1.1 This report presents the Authority's draft Statement of Accounts for the financial year ending 31st March 2010, prior to audit.
- 1.2. It also provides an update on progress towards meeting the International Financial Reporting Standard (IFRS).

2. RECOMMENDATIONS

Audit Committee is recommended to:-

- 2.1 Approve the draft final Statement of Accounts for the financial year ending 31st March 2010.
- 2.2 Note that the accounts will now be submitted for audit.
- 2.3. Note progress towards meeting the International Financial Reporting Standard (IFRS).

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

3. BACKGROUND

- 3.1 The approval of the authority's Statement of Accounts is subject to a two stage process. Firstly, Audit Committee receives and is requested to approve the draft Statement of Accounts for submission to the Audit Commission. Under statute this must take place on or before 30th June 2010.
- 3.2 After the Council's accounts have been subjected to external audit, the auditor will issue his opinion and, providing he finds no reason not to do so, his audit certificate. The final accounts must be published by 30th September each year.
- 3.3 Under legislation, if there are any material amendments arising as a result of the audit, these must be reported back to the Audit Committee.
- 3.4 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.
- 3.5 An important change this year is that for the first time, PFI schemes have been brought "on balance sheet" in accordance with changes in recommended accounting practice.

4. STATEMENT OF ACCOUNTS 2009-2010

- 4.1 The draft Statement of Accounts is attached to the report as **Appendix 1**.
- 4.2 The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the "Statement of Recommended Practice" published by the Chartered Institute of Public Finance and Accountancy (CIPFA). A summarised version of the accounts is published as a leaflet once they are approved.
- 4.3. The Council's final spending against budgets is reported to the Cabinet and this will take place at the meeting of 7th July 2010.
- 4.4. The accounts are an important aspect of the financial management of the Council as they set out the Council's financial position, including its main assets and liabilities on a year-by-year basis as well as summarising the transactions of the Council during the year. The accounts influence the Council's financial plans because balanced budgets and sustainable medium term planning depend upon a healthy overall financial position. If an authority finds itself in a position in which it needs to set money aside in its accounts to cover existing liabilities or future risks, for example, these items are the first call on the budget.

- 4.5. The draft accounts provide some important information about the Council's finances which Members will wish to bear in mind.

<p>Income and Expenditure Account (<i>Page 17</i>)</p>	<p>The Income & Expenditure Account summarises the revenue activities of the Council during 2009/10 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>The draft accounts show that in 2009/10, the Council spent £1,297 million on services, most of which was funded from income which comes in the form of specific grants, rents, fees and charges for services. General Fund levels are almost unchanged at £27.133 million.</p> <p>Any surplus or deficit on the Income and Expenditure Account is carried to the Statement of Movement on the General Fund Balance.</p>
<p>Housing Revenue Account (<i>Page 52</i>)</p>	<p>The Housing Revenue Account is a separate ring-fenced account showing the expenditure and income relating to the provision of Social Housing by the Council.</p> <p>The HRA balance as at 31st March is £12.978 million; this was a reduction of £10.323 million. The reduction included the use of £4.2 million from Housing Choice reserves, £1.95 million of HRA balances towards the overcrowding strategy and £2.35 million from when the budget was set. The reserve balance of £12.978 million is in excess of the £12.169 million expected when the 2010/11 budget was set.</p>
<p>Group Accounts (<i>Pages 61 to 66</i>)</p>	<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</p>

	<p>does all of its business with the Council. For this reason the Group Accounts are not substantially different from the Council's own accounts at this stage.</p>
Reserves & Balances	<p>Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes or services. The level of earmarked reserves now stands at £98.889m, a decrease of £2.976m over the previous year. The detail is set out in Note 46 to the Accounts (Pages 46 to 48). Most of the decrease is explained by application of the decent homes reserve. The earmarked reserves are set aside against specific risks or approved spending.</p> <p>The level of the General Fund balance now stands at £27.133m (Page 18). This is the amount which is generally available for use in unforeseen circumstances. The amount is being held at a relatively high level at the moment in view of the risks to the authority's expenditure and income arising from the economic downturn and the consequential squeeze on public spending.</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 Cabinet for approval on 7th July. In the event that the 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>
Balance Sheet (<i>Page 20</i>)	<p>The Balance Sheet shows the various assets and liabilities of the Council as at 31st March 2010. The value of the assets of the Council must equal the value of liabilities plus reserves.</p> <p>Assets include land and buildings, equipment and vehicles, cash and investments held by the Council, and any debts owing to the Council.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure</p>

	<p>and any debts owed by the Council.</p> <p>The net assets of the Council (assets less liabilities) were £2.178 billion, which was a slight increase from 31st March 2009 when the figure was £2.097 billion. The main reason for the increase is that fixed asset values have increased.</p> <p>The increase in value has no immediate impact on the Council but may indicate increased opportunities to increase income from the disposal of surplus fixed assets.</p>
Collection Fund (<i>Page 62</i>)	<p>The Collection Fund is a separate account detailing local taxes collected by the Council on behalf of itself, the Greater London Authority (GLA) and 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.</p> <p>Any surplus on the Fund is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund, and any deficit is similarly distributed. The Fund shows a surplus of just over £6 million in 2009/10. The additional income collected arises from the fact that so far, housing completions in Tower Hamlets have been affected less than anticipated by the recession.</p>
Cash Flow Statement (<i>Page 21</i>)	<p>The Cash flow Statement is an alternative way of showing the financial activity of the Council in terms of payments made and received during the year. It gives quite a good idea of the scale of the financial operations of the Council, showing where its money comes from and how it has been spent.</p>
Pension Fund Accounts (<i>Pages 71 to 77</i>)	<p>The Pension Fund accounts are separate from the rest of the Council's accounts and show the expenditure and income, assets and liabilities of the Pension Fund provided by the Council under legislation for the benefit of its employees and pensioners, and those of admitted</p>

	<p>bodies. They are audited at the same time as the Council's accounts but are subject to a separate audit opinion. The market value of the assets of fund at the end of the year was £752.5m, an increase of 33.8% from March 2009 largely reflecting the market conditions affecting investments over the last year.</p> <p>However the current valuation could impact the next valuation of the Fund, which is due in 2010 and sets the Council's contributions to the Fund for the following three years.</p> <p>The Pensions Fund accounts were also considered by the Pensions Committee on 10th June.</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 approve the accounts and formally submit them to the Audit Commission for audit. 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. With effect from the 2010/11 financial year, local authorities will be required to prepare their financial statements in accordance with the International Financial Reporting Standard (IFRS). This replaces the existing standards and the Generally Accepted Accounting Code of Practice for the UK (UKGAAP). IFRS, which has applied to Companies for some years, has already been introduced in central government and the NHS and the purpose is to have a single standard upon which all organizations throughout the world are required to report. Adoption is mandatory for local authorities.
- 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.
 - Bringing assets procured through PFI onto the balance sheet.
 - 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 be become clearer from the accounts.
- Increasing the level of reporting required relating to employee benefits.

It is understood from experience elsewhere that the changes are likely to increase the size of the accounts by about 50%.

- 5.3. As IFRS is introduced fully in 2010/11, it will be necessary to state the current year's (2009/10) accounts in IFRS terms as well as in accordance with existing standards. The changes relating to the treatment of PFI schemes are reflected in the 2009/10 accounts.
- 5.4. There is a considerable amount of work involved in progressing towards IFRS, which affects most parts of the Council. Consequently a project has been set up to address these requirements. A qualified accountant within the Corporate Finance Service has been seconded to the role of IFRS Accountant in order to progress the project. The Financial Reporting & Technical Excellence Group, which comprises senior finance officers from all Directorates, is acting as the project board. The group receives monthly updates. The project began in December 2008 and has made good progress so far.
- 5.5. Further updates will be provided to the Audit Committee as the project proceeds.

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 6.1 The comments of the chief financial officer are incorporated within this report of which he is the author.
- 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 need to be contained within existing 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.