

COMMITTEE	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
<b>Audit Committee</b>	<b>26<sup>th</sup> June 2012</b>	<b>Unrestricted</b>		<b>8.3</b>
<i>REPORT OF:</i> <b>Chris Naylor – Corporate Director of Resources</b>		<i>TITLE:</i> <b>Annual Financial Report 2011-12</b>		
<i>ORIGINATING OFFICER(S):</i> <b>Peter Hayday – Interim Head of Corporate Finance, Risk and Accountability</b>		<i>Ward(s) affected:</i> N/A		

## **1. SUMMARY**

- 1.1 This report presents the Annual Financial Report for 2011-12 which comprises an Explanatory Foreword by the Corporate Director, Resources and the draft Statement of Accounts which is subject to audit. The full Annual Financial Report will also contain the Annual Governance Statement which is the subject of a separate report on this Committee's agenda. The draft is both for information and comment prior to the commencement of the external audit proper by the Audit Commission (some preliminary work has already been undertaken).
- 1.2 Some minor changes may become necessary as a result of the audit process but these are not expected to have any material impact on the Council's overall financial position. The audit is planned to be concluded in early September and the results reported to the Committee on 25<sup>th</sup> September.

## **2. RECOMMENDATIONS**

Audit Committee is recommended to:-

- 2.1 Note the Annual Financial Report for the financial year ending 31<sup>st</sup> March 2012 comprising the Explanatory Foreword and the draft Statement of Accounts which is subject to audit.

## **3. BACKGROUND**

- 3.1 The Annual Financial Report 2011-12 comprises three elements:
  - An Explanatory Foreword
  - The Statement of Accounts
  - The Annual Governance Statement

The draft Statement of Accounts is attached as Appendix 1 and is subject to audit. The Annual Governance Statement is the subject of a separate report (agenda item 6.2).

- 3.2 The preparation and audit of the annual statement of accounts is a statutory requirement of the Accounts and Audit (England) Regulations 2011. The accounts must be prepared and certified by 30<sup>th</sup> June by the Corporate Director, Resources (the 'responsible financial officer') that it presents a true and fair view of the financial position of the Council. By no later than 30<sup>th</sup> September the accounts must be audited, considered by Audit Committee (together with a report from the auditors) and published. Although the Audit Committee is not actually required to consider the accounts prior to audit, good practice recognises the value in giving Members early notification of the financial outcome of the previous financial year.
- 3.3 For 2011-12 the audit will be carried out by the Audit Commission. The main audit is due to commence on 1<sup>st</sup> July, 2012 although some interim work has already been conducted. The audited accounts, together with the audit opinion and report, will then be submitted to the Audit Committee on 25<sup>th</sup> 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 2011-12**

- 4.1 The draft Statement of Accounts is attached to the report as Appendix 1. 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" and "Standard of Professional Practice on Financial Reporting" published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The CIPFA Code of Practice is based on International Financial Reporting Standards (IFRSs). A summarised version of the accounts will also be published once the audit has been completed and the accounts have been formally approved.
- 4.2 Note that the title of the document tabled has been changed to Annual Financial Report rather than the Statement of Accounts. Though the contents of the document are unchanged from last year, the change in title is to acknowledge that the Auditor's opinion will just apply to the Statement of Accounts section of the document. Though the Auditor's will consider the Explanatory Foreword and Annual Governance Statement as part of auditing the Accounts for consistency, strictly speaking these are outside the scope of the opinion.
- 4.3 The purpose of the Statement of Accounts is to provide clear information about the authority's finances and should answer such questions as :
- What did the authority's services cost in the year?
  - Where did the money come from?
  - What were the authority's assets and liabilities at the year end

The Statement of Accounts reflects a common pattern of presentation to facilitate comparison with the accounts of other organisations. The accounts also form the basis of the Medium Term Financial Planning process.

- 4.4 The Council's 2011/12 outturn report, detailing net expenditure against individual service budgets, was reported to the 20<sup>th</sup> June Cabinet meeting and the 19<sup>th</sup> June Overview and Scrutiny Committee.
- 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 2011/12 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 2011/12 of £1.23 billion with a net surplus of £221 million. 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 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 increase in the General Fund Balance was £3.554m leaving a balance as at 31<sup>st</sup> March 2012 of £26.9 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 £137.7 million including school balances of £25.8 million, the HRA reserve and £6.3 million of un-spent grants balances carried forward. The accounts assume certain transfers to Earmarked reserves requested by Directorates which have yet to be formally approved, and are reported in full to the June 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>
Balance Sheet	<p>The Balance Sheet shows the assets and liabilities of the Council as at 31<sup>st</sup> March 2012. 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 remained relatively unchanged at £1.9 billion in value.</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 £1.4 billion, which was a slight increase from 31<sup>st</sup> March 2011 when the figure was £1.3 billion. The main reason for the increase is due to the CLG debt repayment of £236 million less the increase in the pension fund liability of £113 million.</p>
Housing Revenue Account	<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 31<sup>st</sup> March 2012 is £13.6 million including an ear-marked</p>

	<p>future housing supply reserve of £1 million. The increase was due to higher income from commercial rents and larger fee income from the capital programme. The required bad debt provision was lower than originally anticipated.</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 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 £4.2 million for 2011/12 including the budgeted allocation of a previous year surplus of £3.4 million. The overall surplus on the Fund carried forward is £33,000.</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</p>

	<p>liabilities of the Pension Fund as at 31<sup>st</sup> March 2012.</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 £827 million (an increase of 1.8% from the £812 million March 2011 valuation). This increase largely reflects investment income received on pension assets over the last year.</p> <p>The results of the triennial revaluation completed during 2010/11 estimated a funding deficit of £305million and a funding level of 71%.</p> <p>The Pensions Fund accounts will be considered by the September Pensions Committee.</p>
--	---

- 4.6 Members are now invited to note the Annual Financial Statement and the Statement of Accounts in particular 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. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 5.1 The comments of the chief financial officer are incorporated within this report.

## **6. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)**

- 6.1 The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit (England) Regulations 2011. The statement must include statements about the housing revenue account (setting out prescribed particulars) and each and every other fund in relation to which the Council has a statutory function to keep a separate account. The statement must include notes: demonstrating that Dedicated Schools Grant has been deployed in accordance with regulations; of the number of employees in each £5000 salary bracket starting at £50,000, not including senior employees; and of the remuneration and the Council's contribution to pension for each senior employee.
- 6.2 The Accounts and Audit (England) Regulations 2011 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 30

June each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's income and expenditure for the year. The audit committee must approve the statement of accounts by 30 September each year and the statement must be signed by the chair of the meeting at which the accounts were approved. The statement of the accounts must be published by 30 September along with any certificate, opinion or report issued or given by the Auditor under section 9 of the Audit Commission Act 1998.

- 6.3 As indicated in section 3 of the report, it is consistent with good practice for the committee to see the statement of accounts at an early stage, given that it will be asked to approve the accounts upon completion of the audit.

## **7. ONE TOWER HAMLETS CONSIDERATIONS**

- 7.1 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.

- 7.2 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.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)**

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

## **9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 There are no specific risk management implications.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 10.1 There are no crime and disorder reduction implications.

## **11. EFFICIENCY STATEMENT**

- 11.1 There are no specific efficiency implications although the Audit Commission will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter.

## **12. APPENDICES**

Appendix 1 – Explanatory Foreword and draft Statement of Accounts for the year ended 31<sup>st</sup> March 2012 (subject to audit)

---

**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 Papers	Kevin Miles, Ext. 6791
Capital Working Papers	Alison Gebbett, Ext. 3360
HRA Closure of Accounts Working Papers	Paul Leeson, Ext. 4995



