

Statement of Accounts 2005/06

Summary

- 1 This report sets out the changes that have been made to the Statement of Accounts approved at Council on 2 June 2006, the reasons for the changes and seeks approval for the revised Statement of Accounts.
- 2 The report, and the Accounts, are being brought to Urgency Committee because there is a statutory requirement that the representative of the Audit Commission, the District Auditor, gives his opinion on the latest set of Accounts that have been approved by Members, and the District Auditor has to give his opinion before 30 September 2006. There is not a Council meeting that would meet these requirements.

Background

- 3 Members will recall that it is now a statutory requirement that the formal Statement of Accounts are approved by 30 June each year, and the audit completed by 30 September. The Accounts for 2005/06 is the first year that this requirement has existed. Members will also recollect that they were advised that due to the accelerated processes needed to meet the new statutory deadlines it was possible that a revised Statement of Accounts may need to be presented for approval if major changes were needed.

Reasons for Changes

- 4 Prior to formal ratification of the Accounts by Council a copy of the draft accounts were given to the district auditor to enable them to start preliminary audit work. A question was raised about whether or not the correct valuation had been made for the social housing element of the council housing stock. This was referred to the Property Division within Resources Directorate who advised that the figures supplied were correct.
- 5 In July 2005 the then Office of the Deputy Prime Minister (ODPM), which now is the Department for Communities and Local Government (DCLG), issued a notification that the proportion of total value of the housing stock that must be included within fixed assets in the Accounts as the 'social housing' value should be reduced from 55% to 47% of the gross value, with effect from April 2005. Since the Accounts were approved it has been confirmed that this adjustment should have been made retrospectively to the full Housing Revenue Account

(HRA) re-valuation exercise that had taken place between January and April 2005 using the then approved rate of 55%. This had not happened. The implications of changing this is to reduce the value of the assets in the balance sheet by £61m, with consequential amendments to the Fixed Asset Restatement Account and the Capital Financing Account in the Total Equity on the Balance Sheet as well as alterations to the Consolidated Revenue Account, the Housing Revenue Account, the Statement of Movement on Reserves and the Foreword.

- 6 The ODPM guidelines are not regularly changed with regard to HRA valuations, but the most recent issue would be checked during the process of re-valuation. This process would normally take place between January and 31 March each year. In this case the guidelines affecting this re-valuation were not released until July.
- 7 The responsibility for undertaking the re-valuation rests with our consultants Stephenson and as such they are responsible for ensuring the current guidelines have been used. Equally, in quality checking their work Property Services should also be aware of the current guidelines.
- 8 To introduce a failsafe procedure and avoid a repeat of this incident the following process will be put in place:
 - To ensure that both our consultant and Property Services are on the ODPM (DCLG) circulation list for amendments and releases of their guidelines
 - To ensure that both our consultant and Property Services regularly enquire of the ODPM (DCLG) regarding forthcoming changes and releases (this is now a diarised event)
 - A further check to be carried out during Property Services quality assessment of the consultant's work prior to sign off.
- 9 A second change required is on one of the notes to the Consolidated Balance Sheet, where the prepayment introduced into the Accounts for the Private Finance Initiatives (PFI) scheme was not reflected in note 5, the capital financing requirement. Although the amendment is an adjustment of £4m it is in an explanatory note to the Accounts, which simply shows the expenditure treated as capital in the Accounts, and what resources have been used to finance it. This amendment is a consequential change to a recent agreement with the district auditor on how best to reflect the PFI transactions in the Council's Accounts.
- 10 In addition, money set aside for potential employee claims were moved from being designated as a provision to being a reserve as the Council is applying for 'capitalisation' powers for this expenditure. In the view of the technical division of the Audit Commission until such powers are granted the sums should continue to be shown as a provision in the accounts, and this has been agreed. The difference between provisions and reserves is a technical one, with the impact on the Accounts being whether the sum set aside is shown within long-term liabilities (where a provision is included, representing sums set aside for liabilities or losses which are certain to arise but owing to their inherent nature cannot be quantified with any certainty) or in the equity (where a reserve is included,

representing sums set aside for earmarked purposes). Other changes resulting from this are on the Consolidated Revenue Account, note 1 to the Cash Flow Statement and the Statement of Movement on Reserves. There may still be an issue over the level of the sum the Council has set-aside for equal pay compensation payments, but that will be raised by the district auditor in his 'Annual Governance Report' to the Executive in September.

- 11 Finally, it is a requirement of the Code of Practice that the Post Balance Sheet Event section on page 67 (note number 33 to the Consolidated Balance Sheet) should be continually updated up to, and including, the time that the Accounts are formerly 'signed-off' by the District Auditor. The existing entry on the status of the potential capping threat to the Council has been updated as there has been a resolution to this issue, and a further entry has been made in relation to a forward deal on investment that the Council has entered into under the revised prudential indicators agreed by Members. The opportunity has also been taken to correct some presentation and typographic issues.

Effect of the Changes

- 12 There is a level of materiality to be considered about changes to the Statement of Accounts. The Audit Commission would consider that any amendments where the cumulative effect is above £2m are material, and at this level Member approval should be sought. The revaluation of Council House dwellings alone has reduced the value of fixed assets by £61.089m and so approval is needed to the revised accounts. However, if, in any year, amendments are needed that change the financial position of the Council the Director of Resources would bring a revised statement to Members, even if the sums involved were less than £2m.
- 13 Full details of all the changes made are shown in Annex 1 and a revised Statement of Accounts is attached as a separate document.

Consultation

- 14 The original Statement of Accounts was presented to both the Audit and Governance Committee and the Executive for scrutiny to enable Members to request further information on any matters included within the Accounts, or to request further information to be presented to them at a later date.

Options

- 15 There are no alternative options applicable to this paper.

Analysis

- 16 The analysis of the changes needed to the Statement of Accounts is included in Annex 1.

Corporate Objectives

- 17 When determining the CPA score for the Council consideration is given to whether or not the Statement of Accounts has both been approved by the Council and received its audit certificate within the statutory time-frames.

Implications

- 18 The implications are

- Financial - the changes as detailed in Annex 1 result in major changes to the Consolidated Balance Sheet (the revaluation of council dwellings), with presentational changes for the provision/reserves issue. The implications from these changes are reflected in other statements in the Accounts and in the notes to the Statements. Also there are minor amendments to the notes to some of the statements, including correction of typographic errors. Although there are some large numbers involved in these amendments they do not affect the financial standing or viability of the Council as the changes are all about accounting entries in the Accounts - there are no changes that affect the financial surpluses of the Accounts.
- Human Resources - there are no human resource implications to this report.
- Equalities - there are no equality implications to this report.
- Legal - there are no legal implications to this report.
- Crime and Disorder - there are no crime and disorder implications to this report.
- Information Technology - there are no information technology implications to this report.
- Property - there are no property implications to this report.
- Other - there are no other implications to this report.

Risk Management

- 19 Failure to approve and sign off the revised Statement of Accounts will result in the Council receiving a 'qualification', that the accounts presented do not present fairly the financial position of the Council, from the District Auditor when he issues his statement to be incorporated in the published Accounts.

Recommendations

- 20 Members are asked to agree the amendments set out in Annex 1 and approve the revised Statement of Accounts for the financial year 2005/06

Reason: The revised Accounts have to be formally approved by Members before the District Auditor can give his opinion on them

21 Members are requested to authorise the Chair of this Committee to sign and date page five of the Accounts as the formal record that Members have approved them.

Reason: The Accounts must be signed and dated at their formal approval by the Chair of the meeting.

Contact Details

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Chief Officer responsible for the report:

Simon Wiles
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Report approved	√	Date	10 August 2006
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Specialist Implications Officer(s) None

Wards Affected: *List wards or tick box to indicate all* **All**

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For further information please contact the author of this report

Background Working Papers

Statement of Accounts 2005/06
Closure of Accounts files held in the City Finance Centre

Annexes

Annex 1 - Details of all the changes made to the Statement of Accounts