

Report of the Head of Finance

## **Statement of Accounts 2007/08**

### **Summary**

1. The purpose of this report is to enable the Executive to undertake an examination of the Council's financial accounts for the financial year 2007/08 and to then submit them for approval by Full Council on the 30th June. As such this report provides the Executive with an opportunity to review and comment on the content and presentation of the Accounts prior to their finalisation.
2. The report also helps fulfil the CPA requirement that the accounts have been given a 'robust' scrutiny by Members prior to being approved. As part of this process the accounts were considered at the audit and governance committee on the 26 June. An update of their discussions will be provided at the meeting.
3. The Executive should note that copies of the statement of accounts are not attached to this agenda but instead are being circulated as part of the council agenda papers.

### **Background**

4. The 2007/08 final account process has again been difficult. This is the 2<sup>nd</sup> year when the format of the accounts is presented in line with Generally Accepted Accounting Practice (GAAP) and as indicated last year the standards are designed for business accounting purposes eroding some of the connectivity between the accounts and the council's business.
5. In addition the Council is required to follow standard accounting practice as agreed by CIPFA; this is set out in 'Statements Of Recommended Practice' (SORP). The changed requirements as they related to City of York are as follows:
6. **Minimum Revenue Provision (MRP)** It is now required that authorities make a prudent provision for debt, compared to previous years where a standard 4% standard provision was applied. For 2007/08 Authorities have the choice of continuing to use the previous methodology or of adopting the options in the guidance. A statement as to the methodology used by the Council is being presented to the Executive on 30 June as part of the outturn reports for 07/08, covering the methodology to be used for 07/08 and 08/09 on.
7. **Revaluation Reserve and Capital Adjustment Account.** The Fixed Asset Replacement Account (FARA) and Capital Financing Account are being replaced

with the Revaluation Reserve and Capital Adjustment Account respectively. This requires that the balance sheet at 31 March 07 is restated and that this treatment is to be disclosed in the accounts. The balance on the Revaluation Reserve as at 31 March 07 is set to zero. The balances on the Fixed Asset Restatement Account and the Capital Financing Account have been transferred to the new Capital Adjustment Account as at 31 March 07. From April 07 it is no longer possible to write off revaluation decreased to the FARA. Any revaluation loss will therefore be charged to the Income and Expenditure Account.

8. **Financial Instruments.** In addition, as a result of CIPFA adopting new requirements and guidance there have been changes to recommended accounting practice in relation to financial instruments. In York's case the key impacts have been the need to make prior period adjustments in relation to the treatment of premia and discount on the early repayment (restructure) of debt and the need to show accrued interest on borrowing associated with a loan as part of the ongoing value of the loan.
9. In relation to premia and discounts, they now have to be charged directly to the Income and Expenditure account, unless it can be demonstrated that the debt restructure is insignificant enough to warrant the replacement loan as being a modification. On certain premia and discounts held on the Council's Balance Sheet some have been determined to be modifications and as a result the ongoing value of the replacement loan has been modified..
10. To aid in their deliberations members will be briefed on the statement of accounts at the meeting. This presentation will highlight the significant issues or changes that the Committee may wish to discuss; alternatively members may have other issues they wish to query. To assist with their discussions, Members are requested to bring their set of the draft financial accounts to the meeting.
11. The accumulation of these issues set out above is that it has been difficult to achieve the publication dates for this agenda, whilst the Statement of Accounts were being finalised.
12. To assist members understanding the following sections set out information on the constituent parts of the Statement of Accounts in the order in which they are produced.

### **Foreword**

13. This is designed to help give readers an understanding of the accounts. It sets out a description of all the individual sections, gives an overview of the revenue and capital position in the year, identifies the position on the Council's borrowing powers and reserves and future issues that may influence how the Council is run. The Foreword also provides the opportunity to explain any changes in accounting policies that have been used in the preparation of the Accounts.

### **Audit Commission Report**

14. This is the auditor's certificate on the accuracy or otherwise of the authority's accounts and is issued at the end of the audit process. York has never had a qualification to its audit certificate.

### **Statement of Accounting Policies**

15. This statement sets out all the policies that have been followed in preparation of the accounts. It also intended to demonstrate where, if at all, the policies followed by Council differ from either the best practice or the CIPFA guidelines.

### **Statement of Responsibilities**

16. This is a simple statement that sets out the different legal responsibilities of the Council and the 'Section 151 Officer' (Director of Resources). It is also where the certificate has to be signed by the Director of Resources that the accounts represent fairly the position of the Council, and the Lord Mayor (or Chair of Council on the day that the accounts are approved) must sign to demonstrate that the accounts have been approved by Members. In the absence of a Director of Resources at this time, the Council at its Urgency Meeting on 12 May has temporarily appointed the Head of Finance as the Acting s151 Officer until the arrival of the replacement Director of Resources.

### **Annual Governance Statement**

17. The Accounts and Audit Regulations 2003 introduced the requirement for each local authority to conduct a review of the effectiveness of its system of internal control and to publish a Statement on Internal Control (SIC) as part of the Annual Statement of Accounts. The Council first published a SIC in 2003/04. The SIC formed an important part of the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of its corporate governance arrangements, particularly those in respect of risk management and internal control. Publication of the SIC enabled the Council to formally report on governance related issues identified during the relevant accounting period. The SIC demonstrated openness and accountability to the public and other stakeholders, and provided a framework for improving the adequacy and effectiveness of corporate governance arrangements.
18. The Department for Communities and Local Government issued guidance in 2006 (Circular 03/2006) which gave the existing CIPFA/SOLACE Corporate Governance Framework document 'proper practice' status. CIPFA/SOLACE recently published an updated Framework document. The new document '*Delivering Good Governance in Local Government Framework*' sets out the core principles of governance which authorities are required to adopt.
19. The new guidance also introduced the requirement on local authorities to prepare an Annual Governance Statement (AGS) instead of a SIC (for 2007/08, and future accounting years). In preparing the AGS, the Council must address the overall governance arrangements of the organisation rather than specifically the systems of internal control.

### **Income and Expenditure Account**

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Statement of Accounts. The Council first published a SIC in 2003/04. The SIC formed an important part of the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of its corporate governance arrangements, particularly those in respect of risk management and internal control. Publication of the SIC enabled the Council to formally report on governance related issues identified during the relevant accounting period. The SIC demonstrated openness and accountability to the public and other stakeholders and provided a framework for improving the adequacy and effectiveness of corporate governance arrangements.

### **Statement of the Movement on the General Fund Balance**

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### **Statement of Total Recognised Gains and Losses**

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23. In many instances these revaluations impact primarily on the council's balance sheet.

### **Balance Sheet**

24. The balance sheet shows the overall financial position of the Council with external bodies by bringing together the year-end balances of all the Council's accounts. It shows the balances and reserves at the Council's disposal, the long-term indebtedness, the net current assets and summary information on the fixed assets held.

### **Cash Flow Statement**

25. This statement provides a link between the Balance Sheet at the beginning of the year, the revenue accounts for the year and the Balance Sheet at the end of the year. It summarises on a subjective basis the expenditure and income of the Council for revenue and capital purposes.

### **Housing Revenue Account Income and Expenditure**

26. This account summarises the income and expenditure of providing Council houses. There is a statutory requirement to keep this account separate from other Council activities.

### **Statement of Movement on the Housing Revenue Account Balance**

27. This statement shows how the deficit on the Housing Revenue Account Income and Expenditure Account for the year reconciles to the surplus for the year on the

**Collection Fund**

28. This fund shows the transactions of the Council acting as Charging Authority in relation to Council Tax, Community Charge and Non-Domestic Rating in aid of local services and shows how much monies have been distributed to the Council, North Yorkshire Police Authority, North Yorkshire Fire and Rescue Authority, and parish councils.

**Consultation**

29. In line with the approval process agreed in 2005 the statement of accounts and statement of internal control were considered by the audit and governance committee on the 25<sup>th</sup> June. The Executive will be updated with the results of those discussions at that meeting. This report has been produced to enable the executive 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. The outcome of this meeting will be reported to the Council as part of their decision taking process.

**Options**

30. There are no alternative options applicable to this paper.

**Analysis**

31. The analysis of the statement of accounts will be provided at the meeting.

**Corporate Priorities**

32. When determining the CPA score to issue for the Council consideration is given to whether or not the Statement of Accounts has undergone a full scrutiny by Members prior to being approved by Council. The Statement of Accounts provides a technical financial summary of the activities of the Council. This is explained in terms of service activities as part of the provisional outturn reports, being presented to the Executive on 30 June. This report identifies all key drivers and links to the corporate priorities of the Council.

**Implications**

33. The implications are
- Financial - there are no financial implications to this report
  - 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**

34. This report is for Members to review and comment on the Statement of Accounts. Failure to adequately review the Accounts can impact negatively upon the

Council's CPA assessment and reportage of financial issues. Such oversight provides a valuable mechanism for the identification of potential errors, enhanced clarity of reportage and overall awareness of elected members. All of these areas have a positive impact on the financial management of the authority.

**Conclusion**

- 35. The production and publication of the Statement of Accounts is a statutory requirement that provides Members and interested parties with the chance to see the full financial position of the Council. Once the Accounts are audited, a set will be distributed to all Members and Chief Officers.
- 36. In bringing the Statement of Accounts to the Executive provides an opportunity for Member led debate and compliance with defined best practice.

**Recommendations**

- 37. The Executive is recommended to:
- 38. Ask questions or raise issues in relation to the 2007/08 financial accounts.
- 39. Reason: It is an important part of Member involvement in corporate governance that a full scrutiny is undertaken of the Council's Accounts.
- 40. Recommend the statement of accounts to Full Council for their approval before the 30<sup>th</sup> June 2008.  
  
Reason: Under the current constitution Full Council must approve the Statement of Accounts. It is a statutory requirement that this approval be made no later than 30<sup>th</sup> June.

**Contact Details**

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Report		Date
approved	√	

**Specialist Implications Officer(s)** None

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

**All** √

**For further information please contact the author of this report**

**Background Working Papers**

Statement of Accounts 2007/08

Closure of Accounts files held in the City Finance Centre