

Report of the Head of Finance

Statement of Accounts 2007/08

Summary

1. The purpose of this report is to enable the Audit and Governance Committee to undertake an examination of the Council's financial accounts for the financial year 2007/08 prior to their approval by Full Council on the 30th June. As such this report provides the Audit and Governance with an opportunity to review and comment on the content and presentation of the Accounts prior to their finalisation.
2. The report also allows the Audit and Governance Committee to fulfil the CPA requirement that the accounts have been given a 'robust' scrutiny by Members prior to being approved. It is therefore important that the accounts are looked at in some detail and that such discussions are minuted as evidence of that discussion. Any follow-up issues required by this Committee will be brought back at a later date. In determining which areas they wish to address Members may wish to refer to the key issues and changes identified throughout the rest of this report.
3. The outcomes of this meeting will be reported to the Executive when they meet on the 30 June to consider the statement of accounts and refer them to council. The draft statement of accounts itself is due to be approved by full council on the 30 June.
4. The Committee 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

5. The 200/08 final account process has again been difficult. This is the second 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.
6. 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:
7. **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.

8. **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.
9. **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.
10. 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..
11. The challenge that all of the above has presented has meant that at the time of publication of this agenda the statement of accounts were still being finalised.
12. 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, which will be distributed separately
13. It is a statutory requirement that this year Members approve the Statement of Accounts before 30 June and following this the accounts must be 'on deposit' and for the District Auditor to be available for interrogation by any member of the public. It has been agreed that the Audit Commission will be available on the 11th August, and the accounts will be 'on deposit' for public inspection between 14th July and 8th August. The deposit period will be advertised in the York Press.

14. A provisional out-turn report will be presented to the Executive on 30th June 2008. That report will concentrate on the performance against the revenue budgets and will make recommendations for use of the overall underspend for carry forward items where budgeted work could not be completed by 31st March. As the accounts need to fully represent the financial position of the Council these recommendations will be incorporated into the Foreword to the Statement of Accounts. Any changes will have to be approved by Council when the accounts are presented to them for final approval on 30th June 2008.
15. Members should note that the Audit Commission has not yet started the audit of the Statement of Accounts. If the Audit Commission does insist on any significant changes to the accounts, they will be reported to the Executive following the completion of the audit.
16. 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

17. 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

18. 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

19. 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

20. 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.

Annual Governance Statement

21. In the absence of a Director of Resources at this time, the council at its urgency meeting on 12 May 2008 has temporarily appointed the Head of Finance as the Acting s151 officer until the arrival of the replacement Director of Resources.

22. It is a requirement this year that the AGS is considered separately to the Statement of Accounts, and for that reason there is a separate report on this agenda. If there are any changes to the AGS they will be substituted for the version that is in the draft accounts as necessary when the Accounts are placed on deposit

Income and Expenditure Account

23. The Income and Expenditure Account is a new requirement which replaces the Consolidated Revenue Account. This account shows the net cost of all the functions for which the Council is responsible. It compares the cost of service provision with the income raised by fees and charges, from specific Central Government grants and from the Collection Fund. The surplus or deficit on this account represents the amount by which income is greater than or less than expenditure, where income and expenditure are measured using essentially the same accounting conventions that a large (but unlisted) company would use in preparing its audited annual financial statements.

Statement of the Movement on the General Fund Balance

24. This account reconciles the amounts that must be taken into account when determining the Council Tax of the Council in accordance with statute and non-statutory proper practices and the sums included in the Income and Expenditure Account.

Statement of Total Recognised Gains and Losses

25. This statement is a new requirement which attempts to analyse changes in the council's asset base due to:

- Surplus or deficits on income and expenditure
- The revaluation of the council's fixed assets
- Changes in pension liabilities due to actuarial revaluation

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

Balance Sheet

27. 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

28. 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

29. 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

30. 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 Statutory Housing Revenue Accounts.

Collection Fund

31. 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

32. 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 25th 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

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

Analysis

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

Corporate Priorities

35. 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 30th June. This report identifies all key drivers and links to the corporate priorities of the Council.

Implications

36. 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

37. 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

38. 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.

39. Bringing the Statement of Accounts to the Executive provides an opportunity for Member led debate and compliance with defined best practice.

Recommendations

40. The Executive is recommended to:

41. Members are requested to ask questions or raise issues in relation to the 2007/08 financial accounts

Reason: It is an important part of Member involvement in corporate governance that a full scrutiny is undertaken of the Council's Accounts.

Contact Details

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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