| AUDIT COMMITTEE | Agenda Item 12<br>Brighton & Hove City Council |
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| **Subject:** | | **Statement of Accounts 2007/08** | |
| **Date of Meeting:** | | **26 June 2008** | |
| **Report of:** | | **Director of Finance & Resources** | |
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| **Wards Affected:** | All | | |

FOR GENERAL RELEASE

This report was subject to minor delay (and therefore late despatch) pending final agreement and publication by the Audit Commission.

## 1 SUMMARY AND POLICY CONTEXT

1.1 It is a requirement of the current Accounts and Audit Regulations that the council's Statement of Accounts should be approved by Members prior to 30 June 2008.

1.2 The report presents the draft Statement of Accounts for 2007/08. Copies of the Statement of Accounts are available in the Members' rooms. The accounts are in draft format as they have not been fully audited by the District Auditor. It is expected that the District Auditor will present an Annual Governance Report to the September meeting of this committee on the conclusion of the audit of the 2007/08 financial statements.

## 2 RECOMMENDATIONS:

The Committee is asked to:

(1) Approve the Statement of Accounts for 2007/08 and note that these are subject to audit.

(2) Note that actual revenue outturn for the council for 2007/08 was an underspend of £0.244 million.

(3) Note the allocations from General Reserves approved by Cabinet on 12 June 2008.

(4) Note that individual overspendings and underspendings will not be carried forward to 2007/08 and that the £0.244 million underspend has been transferred to General Reserves.

(5) Note that there was a surplus/deficit on the Housing Revenue Account for the year of £1.439 million, which has been transferred to HRA balances.

(6) Note the provisions and contingent liabilities included in the accounts.

## 3 RELEVANT BACKGROUND INFORMATION

3.1 The main legislative requirements relating to the preparation, publication and audit of the council's accounts are contained in the Audit Commission Act 1998 and both the Accounts and Audit Regulations 2003 and the Accounts and Audit (Amendment) Regulations 2006, made under Section 27 of the 1998 Act.

3.2 It is a requirement that the annual accounts should be prepared as soon as practicable after the end of the financial year and considered by a committee or Full Council, and approved by a resolution of that committee, or meeting by the 30 June. The accounts must then be published and signed off by the external auditor as soon as reasonably possible after conclusion of the audit and by the 30 September.

## 4 ANNUAL GOVERNANCE STATEMENT

4.1 The Statement of Accounts includes the Annual Governance Statement. The statement sets out the systems in place to manage the council's risks efficiently, effectively and economically. The Annual Governance Statement includes the findings of the review of the internal control operating in the council. The committee is required to approve the Annual Governance Statement to comply with the Accounts and Audit Regulations 2003 and the Accounts and Audit (Amendment) Regulations 2006. The statement and approval are covered specifically under a separate agenda item (item 16).

## 5 FORMAT OF THE ACCOUNTS

5.1 In accordance with the above regulations, the Statement of Accounts includes an explanatory foreword, a statement of accounting policies adopted and a statement of responsibilities together with the core financial statements, supplementary statements and the notes to the accounts.

5.2 Local Authority accounts are currently designed to be compliant with Generally Accepted Accounting Principles, known as "UK GAAP", to ensure that, in principle, the accounts are consistent and comparable with accounts across public, private and charity sectors. This is also to aid the consolidation of local authority accounts into "Whole of Government Accounts" which incorporate all public sector organisations.

5.3 The committee are advised, however, that in future years there will be a fundamental shift in the format of the accounts toward International Accounting Standards rather than the UK GAAP standard. New International Financial Reporting Standards (IFRSs) have already been developed and applied to some areas, for example, Financial Instruments, and will be increasingly applied until full compliance is required for the 2010/11 accounts.

5.4 The statement would normally comprise both "Single Entity Accounts", which are in respect of wholly council controlled activities, and "Group Accounts" in respect of activities where the council has a significant interest or share in a subsidiary, associate or joint venture entity. However, following the sale of

Shoreham Airport in June 2006, in which the council had a 2/3rd interest, there are no other activities requiring the preparation of Group Accounts.

5.5 The Single Entity core financial statements included within the Statement of Accounts comprise the following:-

- **Income and Expenditure Account (I&E)** – which is the council's main revenue account covering income and expenditure on all services. This statement is fundamental to the understanding of the council's activities, in that it reports the net cost for the year of all the functions for which the council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers. The services are categorised in line with the Best Value Accounting Code of Practice (BVACOP) issued by CIPFA, this is to ensure consistency in the reporting with other local authorities.
- **Statement of Movement on General Fund Balance (SMGFB)** – this complex statement immediately follows the Income & Expenditure Account and essentially reverses out entries in the I&E Account that, while ensuring compliance with reporting standards (i.e. UK GAAP), are not chargeable within the Council Tax demand. For example, the I&E includes depreciation charges to recognise the wearing out of assets, however, council's may only take account of the actual cost of servicing borrowing used to finance the acquisition or construction of those assets. Depreciation is therefore reversed out in the SMGFB and replaced with the appropriate principal and interest repayments on outstanding debt.
- **Statement of Total Recognised Gains and Losses (STRGL)** – which shows all gains and losses including those not included in the Income and Expenditure Account; for example, revaluations of Fixed Assets and the Pensions Fund. This statement brings these other gains and losses together with the surplus or deficit on the I&E Account to show the total movement in the council's net worth for the year (Net Worth is explained below).
- **Balance Sheet (BS)** – which sets out the financial position of the council as at 31 March 2008. This statement is fundamental to the understanding of the council's financial position at the year end as it shows the council's balances and reserves, its long term indebtedness and the fixed and net current assets employed in its operations together with summarised information on the fixed assets held. The statement shows the assets and liabilities of the council balanced by its net worth. Net worth is therefore equivalent to assets less liabilities. A positive net worth indicates that there are sufficient assets to cover current and long-term liabilities.
- **Cash Flow Statement** - this statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

5.6 The supplementary statements comprise the following:-

- Housing Revenue Account Income and Expenditure Account
- Collection Fund Account

- Section 75 Memorandum Accounts (under the Health Act 2006)
- Trust Fund Accounts

5.7 The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting issued in 2007/08 by the Chartered Institute of Public Finance and Accountancy (CIPFA), and also in accordance with guidance notes issued by CIPFA on the application of Statements of Recommended Practice (SORPs). The Statement of Accounts is intended to give electors, members, employees and other interested parties clear information about the council's finances.

5.8 The purpose of the Statement of Accounts is to provide information to a whole range of stakeholders and the general public and provide answers to basic questions such as:

- What did the Council's services and capital programme cost in 2006/07?
- Where did the money come from?
- What does the Council own?
- What amounts were due and what was owed at the end of the financial year?

5.9 By complying with the code of practice, the council has followed a consistent basis of accounting that narrows the areas of difference and variety in accounting treatment, which then enables more meaningful comparison with the published accounts of other local authorities. Unfortunately, adhering to the Code means that there is limited opportunity to make the Accounts particularly "user friendly" to members, stakeholders and the general public. Therefore, wherever possible, notes to the accounting statements have been written in plain English but in certain cases it has not been possible to avoid technical terms. A glossary has been included at the back of the Statement of Accounts. Key information in relation to council finances is also communicated through other publications including the Council Tax Leaflet, Summary Accounts and the Annual Report, which attempt to present information in a more user-friendly way.

5.10 The District Auditor is currently working on the audit of the accounts and will be reporting their findings to this Committee in September 2008 through an Annual Governance Report. Following this report, the District Auditor will be able to issue their audit opinion and the accounts will be published.

5.11 As the accounts have not been fully audited by the District Auditor, it is possible that some changes will be incorporated prior to the issuing of the audit opinion. It is a statutory requirement that any material changes must be reported to Members.

5.12 In addition to publishing the Statement of Accounts, the council will produce an Annual Report including Summary Accounts as was the case in 2006/07.

## 6 CHANGES TO REPORTING STANDARDS

6.1 There are two significant changes to the reporting standards within the accounts. These relate to changes to capital accounting regulations and the treatment and reporting of financial instruments as detailed below.

6.2 Capital Accounting (Fixed Assets)

6.2.1 The 2007 SORP introduced two new reserves, a “Revaluation Reserve” and a “Capital Adjustment Account” which replace the Fixed Asset Restatement Account and Capital Financing Account. The Revaluation Reserve records the unrealised net gains from revaluations made after 1 April 2007 and the Capital Adjustment Account reflects the timing difference between the cost of the fixed assets consumed and the capital financing set aside to pay for them. Both these reserves are matched by fixed assets within the Balance Sheet.

6.2.2 The introduction of the revaluation reserve has had a major impact on the accounting treatment for revaluing fixed assets. There is now the requirement to record each asset’s valuation history as any impairment above the value of that asset’s previous revaluation gains must now be charged to the Income & Expenditure Account.

6.2.3 The Revaluation Reserve has been introduced with a zero balance, in order to achieve a consistent approach across all authorities; therefore this reserve only formally came into existence at midnight on 31 March 2007. As a result, prior period adjustments to the 2006/07 comparative figures are not needed. The 2006/07 balances on the Fixed Asset Restatement Account and the Capital Financing Account are written off to the new Capital Adjustment Account as at 31 March 2007 and the Fixed Asset Restatement Account and Capital Financing Account have been deleted from the 2007/08 balance sheet together with the 2006/07 comparison figures. No other prior period adjustments are necessary in relation to the accounting for fixed assets.

6.3 Financial Instruments (e.g. Loans and Investments)

6.3.1 The 2007 SORP introduced new Financial Reporting Standard (FRS) 25, FRS 26 and FRS 29 in relation to the treatment of financial instruments. This has required prior period adjustments to be made between the closing Balance Sheet for 2006/07 and the restated opening Balance Sheet on 1 April 2007.

6.3.2 These are very complex reporting standards that are aimed at ensuring that the many and varied financial instruments available are accounted for on a consistent and comparable basis. These new standards ensure that financial instruments are presented at either “fair value” or amortised cost (e.g. loans) within the Balance Sheet and also require additional disclosures to show how market, credit and liquidity risks, etc. are managed by the organisation. In this council, these risks are managed through the approval of an Annual Treasury Management Strategy, which complies with treasury management codes of practice, together with the annual approval of prudential indicators.

## 7 TARGETED BUDGET MANAGEMENT (TBM)

7.1 During 2007/08, the Policy & Resources Committee received regular Targeted Budget Management (TBM) reports in respect of the council’s expenditure against the Budget. A revenue outturn report was taken to Cabinet on 12 June

2008 showing a provisional overspend of £0.127 million. This is a significant turnaround from the month 7 TBM report which showed a forecast overspend for the year of £1.9m, principally due to in-year pressures on the concessionary fares budget and children's social care agency placements. The outturn clearly demonstrates that recovery action was successful and that there has been strong collective management of the overall budget position for the year.

7.2 The actual revenue outturn for 2007/08 is an underspend of £0.244 million, which is an increased underspending of £0.117 million compared with the provisional outturn reported to Cabinet on 12 June 2008. This is in respect of an adjustment to the children's General Sure Start Grant and an adjustment, following audit of the grant claim, to the Children's Local Area Agreement grant. At the meeting on 12 June 2008, the Cabinet agreed the treatment and allocation of reserves, carry-forwards and contingencies. The additional underspend will therefore be added to general reserves.

7.3 The Director of Finance & Resources is required to keep under review the level of balances and reserves maintained by the council. The following transfers to reserves were recommended to Cabinet and approved at the Cabinet meeting on 12 June 2008:

i) An additional contribution of £0.500 million to the Single Status Reserve;

ii) The creation of a Car Parks Maintenance Reserve of £0.400 million;

iii) An allocation of £1.070 million from General Reserves to meet an increased deficit on the Collection Fund;

iv) An allocation of £0.100 million to further support the implementation of value for money review improvement projects.

After these allocations, unallocated General Reserves will be 0.451 million.

7.4 Quarterly capital monitoring reports were also considered by Policy & Resources Committee in 2007/08. The provisional capital outturn reported to Cabinet on 12 June 2008 showed capital spending for the year of £38.796m which was within budget. The council endeavours to deliver its capital programme on time (i.e. avoid "slippage") and as such monitors against a challenging target of spending at least 95% (i.e. maintain slippage below 5%) of the approved capital programme each year. Total outturn slippage amounted to £1.407 million or 3.48% of the budget. No resources have been lost as a result of this slippage

## 8 COMMENTARY ON THE STATEMENT OF ACCOUNTS

### 8.1 Income and Expenditure Account (I&E)

8.1.1 The General Fund balance as at 31 March 2008 remains at £9.0 million, which represents the working balance of the council and is at the level recommended by the Audit Commission. In addition there are general reserves of £2.351 million, including unallocated General Reserves mentioned earlier, and other specific reserves of £0.034 million. There are also earmarked reserves of £59.790 million as detailed in paragraph 8.3.7 below.

8.1.2 The implementation of Financial Reporting Standard (FRS) 17 *"Retirement Benefits"* with effect from 2003/04 introduced new entries to the Income and Expenditure Account. FRS17 states that local authorities must recognise future pension liabilities as they are earned. Therefore, the Net Cost of Services and the Net Operating Expenditure in the I&E Account have been affected by figures taken from the consultant actuary's report. However, it should be noted that FRS17 has no impact on the Council Tax Requirement nor on Housing Rent levels.

8.1.3 Dedicated Schools Grant

The Dedicated Schools Grant (DSG) was introduced in 2006/07. The DSG is only used to provide education to the pupils of schools and is not used for any other purpose. There is an underspend of £1.092 million on the use of the Dedicated Schools Grant in 2007/08; this underspend has been carried forward to 2008/09 and is shown within Creditors in the council's Balance Sheet.

8.1.4 Section 75 Health & Social Care Partnerships

Under Section 75 of the Health Act 2006, NHS bodies and local authorities can form partnership arrangements for lead commissioning, integrated provision of services and pooled budgets. Where pooled budgets are in operation and a partner is identified as the lead commissioner and/or provider, that partner is required to disclose Memorandum Accounts in respect of pooled budget activity. Brighton & Hove City Council is the lead commissioner/provider for two services as follows:

i) From 1 April 2006 the arrangements for Learning Disability Services were amended with the council, from this point, acting as the Lead Commissioner and the Lead Provider of these services.

ii) From 1 October 2006 the City Council, the PCT and South Downs Health NHS Trust (SDHT) established a partnership to commission and provide services for children and young people and improve their wellbeing. The council is the lead commissioner and lead provider of services. The council's contribution is shown in the Income and Expenditure Account under Children's and Education Services. The Children & Young People Trust (CYPT) did not pool budgets until 1 April 2007.

## 8.2 Housing Revenue Account (HRA)

8.2.1 This account reflects the statutory requirement to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure – maintenance, administration, and capital financing costs - and how these are met by rents, subsidy and other income.

8.2.2 The 2007/08 outturn for the HRA shows a net surplus of £1.439 million. This represents a variance of 3.3% of the gross revenue budget. The HRA reserves now stand at £5.650 million, which is well in excess of the recommended minimum level of balances of £2 million.

## 8.3 Balance Sheet (BS)

8.3.1 This statement is particularly technical, which is unavoidable given the requirement to observe the code of practice (ACOP) and the complex capital accounting, financial instrument and pension reporting standards. There are explanatory notes to the Balance Sheet in the Statement of Accounts.

8.3.2 Fixed Assets

Total fixed assets have increased from £1,813.1 million as at 31 March 2007 to £1,871.2 million as at 31 March 2008. The movements in fixed assets are detailed in Notes 21 and 31 to the Core Financial Statements. The increase of £58.1 million for additions to fixed assets reflects the significant capital investments by the council plus revaluations less impairment of assets in accordance with the requirements of the Accounting Code of Practice. This is further reduced by disposals of £9.6 million of fixed assets and depreciation of £35.5 million. Gains and losses on the disposal of fixed assets are charged to the Income & Expenditure Account but then reversed back out through the Statement of Movement on the General Fund Balance to ensure they do not impact on the Council Tax demand. However, the cost of disposal remains as a charge to revenue.

8.3.3 Deferred Consideration

Deferred consideration relates to the three schools that are part of the Grouped Schools Private Finance Initiative (PFI) contract together with the PFI for the Central Library. The balance of £19.781 million represents the notional value of the leases granted by the Council to the PFI providers for the three school sites and the central library. The balance will be written down each year to revenue over the life of the PFI contracts.

8.3.4 Borrowing

In accordance with the CIPFA Code on Treasury Management, the management of the council's borrowing portfolio is based on a consolidated approach and not by individual services. The level of borrowing has increased in the year by £5.436 million. Gross new long-term borrowing within the year totalled £33.5 million and has been applied to part fund capital payments. The level of debt attributable to council services totals £239.777 million as at 31 March 2008 (£234.431 million 31 March 2007).

8.3.5 Government Grants Deferred (GGD)

GGD represents grants and external contributions that have been used to finance expenditure on the council's fixed assets. As the value of the asset is reduced by depreciation, so the value of the GGD account is reduced to offset the depreciation charged. GGD increased from £72.238 million at 31 March 2007 to £74.818 million at 31 March 2008.

8.3.6 Revaluation Reserve

This is a new reserve that represents any upward revaluations of assets in accordance with the code of practice. Any impairment of assets is also reflected in this account only to the extent that it can be offset against previous upward revaluation of the asset. Any excess impairment is charged to the I&E Account. The reserve stands at £71.622 million as at 31 March 2008.

8.3.7 Earmarked Reserves

These represent funding that has been set aside for a specific purpose. The balance of £47.288 million at 31 March 2007 increased to £59.790 million at

31 March 2008. This is mainly due to increases in the PFI Reserve (£5.753 million) which will meet future contract payments under these arrangements, and Capital Reserves (£3.945 million) which is a reserve to meet future capital commitments and re-profiling of capital schemes.

8.3.8 Schools' balances

Schools' balances have decreased by £0.221 million from £2.961 million at 31 March 2007 to £2.740 million at 31 March 2008. All schools have the right to carry forward surpluses and overspends, within agreed limits, which will be added to, or taken from their school budget share. The £2.740 million balance includes phases as follows: - Primary Schools £1.130 million, Secondary Schools, £1.797 million, and Special Schools (£0.186 million).

There is an overall decrease in carry forwards, however, the split across phases shows significant variations: - Primary Schools increase of £0.527 million, Secondary Schools decrease of £0.552 million, and Special Schools decrease of £0.183 million.

In total there are 16 schools (out of 73) with deficit balances (22% of total schools) and the split of these is as follows: - 12 Primary Schools (21% of Primary Schools), 3 Special Schools (50% of Special Schools) and 1 Nursery School (50% of Nursery Schools). School budget plans for 2008/09 will incorporate these overspends and the council's Schools Finance Team are working closely with schools to identify those who are likely to require licensed deficits (approval to overspend) in the coming year.

8.3.9 Landfill Allowance Trading Scheme (LATS)

In order to reduce the amount of biodegradable waste (for example, kitchen and garden waste, paper and card) going to landfill, the government has issued tradable landfill allowances to waste disposal authorities to landfill a reducing number of tonnes for each year from 2005/06 to 2019/20. The council's allocation for 2007/08 was 58,643 tonnes, valued at £0.293 million based on trading activities between councils. An estimated 47,393 tonnes were actually landfilled (£0.237 million), leaving 11,250 tonnes (£0.056 million) surplus allowances carried forward in an earmarked reserve to be used in future years. Authorities that landfill more than their permitted allowance can either purchase additional allowances from other waste disposal authorities or pay to the government a financial penalty of £150 per tonne.

8.3.10 Pensions Liability

Financial Reporting Standard (FRS) 17 is referred to in paragraph 8.1.2. The Pensions Liability (net of Pensions Assets) was £114.153 million at 31 March 2007 and it decreased by £37.9 million to £76.242 million at 31 March 2008. This liability is offset by a Pensions Reserve.

## 8.4 Provisions and Contingent Liabilities

8.4.1 Provisions have been made in the accounts for liabilities existing at the 31 March 2008 that are reasonably certain and can be estimated with reasonable accuracy. Provisions are included for the following:-

i) **S117 Mental Health Act 1983** - following a ruling in August 2002, local authorities were unable to charge for accommodation provided under

Section 117 of the Mental Health Act 1983. The council, like many other local authorities, had been charging for a long period of time and this provision has been set up to meet the liabilities of the repayment of these charges.

ii) **Maintenance of Graves** - this provision relates to sums donated by members of the public to care for and maintain graves in perpetuity.

8.4.2 Contingent Liabilities are included where there is a possible loss which is not recognised in the accounts because it cannot be accurately estimated or because the event giving rise to the possible loss is not considered sufficiently certain. The majority of these claims are not considered material and will therefore have no material effect on the council's financial position. Contingent liabilities are included for the following:-

i) **Equal Pay Claims** - it is not possible to determine an accurate amount at this time in respect of potential back pay for equal pay claims as negotiations with staff and unions are still ongoing. A note is therefore provided to recognise this.

ii) **Waste PFI** - as part of the Joint Waste PFI contract (with East Sussex County Council), the council is party to a number of indemnities that have been issued in relation to the proposed construction of the Energy from Waste facility at North Quay Newhaven. These indemnities cannot be quantified or assessed with any reasonable accuracy and are therefore included as a contingent liability note within the accounts.

iii) **Insurance claims** – a contingent liability is recognised in respect of outstanding and potential insurance claims where it is not possible to accurately estimate the timing or value of claims. However, the council's insurance reserve includes cover for potential liabilities based on past experience and professional assessment of current and potential liabilities.

More detail in relation to contingent liabilities is available within the accounts.

## 9 EVALUATION OF ALTERNATIVE OPTIONS

9.1 There is a provision within the Accounts and Audit (Amendment) Regulations 2006 covering the non-approval of the statement of accounts by the 30 June. In such cases, a further meeting of the Audit Committee should be held within 20 working days to consider the annual accounts. Where the meeting does not resolve to approve the accounts, the council is required, as soon as reasonably practicable, to publish a statement as to the reasons why it cannot approve the accounts.

## 10 REASONS FOR REPORT RECOMMENDATIONS

10.1 It is a statutory requirement of the current Accounts and Audit Regulations that the council's Statement of Accounts should be approved by Members prior to 30 June 2008.

## 11 CONSULTATION

11.1 The purpose of this report is to present the council's Statement of Accounts for 2007/08. There has been no external consultation. Residents of Brighton & Hove are able to inspect the accounts during the period 2 July 2008 to 30 July 2008.

## 12 FINANCIAL & OTHER IMPLICATIONS

*Financial Implications*

12.1 Included in the body of the report.

*Legal Implications:*

12.2 The main statutory requirements relating to the Statement of Accounts are summarised in the report, but it is also necessary to note that the Statement must be signed and dated by the person presiding at the committee meeting which approves the Statement. There are no specific human rights implications to which Members' attention need be drawn.

*Equalities Implications:*

12.3 There are no equalities implications arising directly from this report. The Statement of Accounts is a statutory publication and is available for the public inspection at the council's main offices and Public Libraries. Information on the accounts will, as far as possible, be provided in a manner that meets the needs of those requesting information.

12.4 An annual report will also be published including summary accounts.

*Sustainability Implications:*

12.5 There are no direct environmental implications arising from this report. However, it is believed that the reputation of the council's framework and its ability to demonstrate sound financial management could have an impact on the willingness of other funding partners to invest in and with the council. This could affect the level of inward investment in respect of projects that contribute towards sustainability.

*Crime & Disorder Implications:*

12.6 There are no direct implications for the prevention of crime and disorder arising from this report.

*Risk and Opportunity Management Implications:*

12.7 There has been no direct risk assessment for this report. However, the management of the closure of the council's accounts and the preparation of these complex annual accounting statements are subject to full risk assessment and review.

*Corporate / Citywide Implications:*

12.8 Any material changes resulting from the conclusion of the Audit will be reported to the Audit Committee. The quality and accuracy of the Statement may impact on the council's score for financial reporting within the use of resources assessment under the Comprehensive Performance Assessment framework. The council is currently at level 2 (out of 4) for this element of the use of resources assessment.

## SUPPORTING DOCUMENTATION

### Appendices:

None

### Documents In Members' Rooms

1. Statement of Accounts 2007/08

### Background Documents

None