AUDIT COMMITTEE	Agenda Item 27 Brighton & Hove City Council

Subject:		**Audit of Accounts ended 31 March 2011: Letter of Representation and Statement of Accounts 2010/11 Update**	
Date of Meeting:		**27 September 2011**	
Report of:		**Director of Finance**	
Contact Officer:	Name:	**Nigel Manvell**	**Tel: 29-3104**
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Wards Affected:	All		

FOR GENERAL RELEASE

1 SUMMARY AND POLICY CONTEXT

1.1 Under the Accounts and Audit Regulations 2011, the council's Statement of Accounts for 2010/11 must be approved by Members by the 30 September 2011. Under Brighton & Hove City Council's constitution, the Audit Committee is charged with this responsibility.

1.2 The Audit Commission are required to give assurance that the Statement of Accounts is free from material misstatement and to report significant matters arising from the audit.

1.3 The Audit Commission has conducted its audit of the Statement of Accounts and has recommended only a relatively small number of amendments prior to issuing their opinion and the publication of the accounts.

1.4 This report presents the revised 2010/11 Statement of Accounts following the audit. It outlines the amendments made to the statements since they were presented to the June committee and provides assurances to the Audit Committee in relation to the preparation of the Statement of Accounts. It also provides information regarding the summary accounts and informs the committee of the outcome of the public inspection of the accounts. Copies of the revised Statement of Accounts are available in the Members' rooms.

2 RECOMMENDATIONS:

The Committee is recommended to:

(1) Note the findings of the Audit Commission in their Annual Governance Report (AGR)

(2) Note the adjusted misstatements to the 2010/11 Statement of Accounts (paragraph 8.3).

(3) Consider the advice in relation to unadjusted misstatements and agree that they should not be adjusted for (paragraphs 8.4).

(4) Note the results of the public inspection of the accounts (Section 10).

(5) Approve the letter of representation on behalf of the council (Appendix 1 of this report).

(6) Consider and approve the management responses to the action plan in the AGR

(7) Approve the audited Statement of Accounts for 2010/11.

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 the Accounts and Audit Regulations 2011 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 of Full Council by the 30 September.

3.3 The accounts must be published and signed off by the external auditor as soon as reasonably possible after the conclusion of the audit and by the 30 September.

4 FORMAT OF THE STATEMENT OF ACCOUNTS

4.1 As reported to the June committee, with effect from the 2010/11 financial year, the authority is required to present its financial statements on an International Financial Reporting Standards (IFRS) basis and adopt the IFRS based Code of Practice on Local Authority Accounting (the Code); the authority previously presented its financial statements on a UK Generally Accepted Accounting Practice (UK GAAP) basis and adopted the Code of Practice on Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice (SORP).

4.2 The purpose of the Statement of Accounts is to provide information to a whole range of stakeholders and the general public about the financial position, financial performance and cash flows of the authority and to provide answers to basic questions such as:

- What did the council's services and capital programme cost in 2010/11?
- Where did the money come from?
- What does the council own?
- What commitments does the council have and what provisions and reserves has the council set against these?
- What amounts were due and what was owed at the end of the financial year?

4.3 In accordance with the accounts and audit regulations, the Statement of Accounts includes an explanatory foreword, a statement of responsibilities together with the core financial statements, supplementary statements and the notes to the accounts.

4.4 The Statement of Accounts would 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, as in previous years, there are no other activities requiring the preparation of Group Accounts in 2010/11.

4.5 The new format of the financial statements shows less detail on the face of the statements and more analysis in the notes to the financial statements. In addition the authority's accounting policies are now included as a note to the financial statements.

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

- Movements in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet including the Balance Sheet at the beginning of the earliest comparative period (i.e. a third Balance Sheet as at 1 April 2009)
- Cash Flow Statement
- Notes to the Financial Statements

4.7 The supplementary statements comprise the following:-

- Housing Revenue Account
- Collection Fund Account

4.8 The explanatory foreword included in the Statement of Accounts aims to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. A commentary on these key aspects of the 2010/11 Statement of Accounts is included in Appendix 3 to this report.

4.9 The District Auditor (external audit) has completed work on the audit of the accounts and will be reporting their findings to this Committee through the Annual Governance Report. Following this report, the District Auditor will be able to issue their audit opinion and the accounts will be published.

4.10 In addition to publishing the Statement of Accounts, the council has produced summary accounts as has been the case in previous years.

5 PREPARATION OF THE STATEMENT OF ACCOUNTS

5.1 The Statement of Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2010/11, issued by CIPFA. There has been no deviation from the requirements of the Code and all accounting policies adopted by the council for the 2010/11 Statement of Accounts are in line with the requirements of the Code.

5.2 The accounts have been prepared by appropriately qualified and trained council officers who have undertaken extensive training on the new requirements for preparing local government financial statements and notes under IFRS. Finance officers who are involved in the preparation of the Statement of Accounts attend regular training to ensure an up to date knowledge and continuous professional development. A number of finance staff are also undertaking professional qualifications.

5.3 Officers have made reference to CIPFA's practitioner's guidance notes, disclosure checklists and other technical guidance in preparing the Statement of Accounts to ensure compliance with all statutory and other regulatory requirements. Officers have also liaised closely, during the preparation of the financial statements, with external audit over proposed accounting treatment of the key changes under the new IFRS requirements.

5.4 The council makes a number of critical judgements, accounting estimates and assumptions in the preparation of the financial statements; the details are disclosed in note 4 to the financial statements.

5.5 As part of the accounts preparation process, a full review of the financial statements, notes and critical accounting transactions was undertaken by senior officers within financial services. Following this review, the Statement of Accounts were then approved by the Chief Finance Officer to be issued for public inspection and audit.

5.6 During the accounts audit process, officers liaise closely with external auditors in respect of audit queries and work closely to ensure prompt and successful resolution of these queries. During the audit of the 2010/11 accounts, there have been no disputes between council officers and external audit in the required amendments to the accounts.

6 CHANGES TO ACCOUNTING STANDARDS

6.1 The authority is required to account for the transition to International Financial Reporting Standards (IFRS) in accordance with IFRS1 *First Time Adoption*. The code requires accounting policy changes arising out of the adoption of the IFRS based code to be accounted for retrospectively unless the code requires an alternative treatment.

6.2 The authority has adopted a number of changes in accounting policies as a result of adopting the IFRS based Code. The authority has accounted for the accounting policy changes arising out of the transition to IFRS and adoption of the IFRS based Code retrospectively unless the Code requires an alternative treatment.

6.3 The transition from UK GAAP to IFRS has had a significant impact on the authority’s financial statements in terms of accounting treatment, presentation and disclosure requirements. The significant areas of the financial statements affected by the transition are accounting for non current assets, leases, cash equivalents, grants and employee benefits.

6.4 Note 1 to the financial statements details the authority’s revised accounting policies under IFRS. Note 2 to the financial statements provides an explanation of how the transition from UK GAAP to IFRS has affected its reported financial position, financial performance and cash flows.

6.5 The main changes for the 2010/11 accounting period as required by the transition to IFRS are summarised in Appendix 2 of this report.

7 PRIOR PERIOD ERRORS

7.1 The Code requires material prior period errors to be corrected except to the extent it is impracticable to determine either the period specific effects or the cumulative effect of the error.

7.2 The authority has made an adjustment for a prior period error in the financial statements in respect of the overstatement of income and expenditure in the Comprehensive Income and Expenditure Statement for 2009/10. This was in respect of the children’s and education services. Income has reduced by £17.418m and expenditure has reduced by the same amount.

7.3 The authority has also made the following adjustments for prior period errors in the financial statements in respect of the council's pension liability and associated entries which arose following historic errors in the split of employer contributions between the authority and East Sussex County Council for both unfunded and funded benefits.

- an understatement in the actuarial loss on pension assets and liabilities in the Comprehensive Income and Expenditure statement of £10.200m;
- an overstatement in the pensions interest cost and expected return on pension assets in the Comprehensive Income and Expenditure statement of £0.018m;
- an understatement in the pension liability and pension reserve on the balance sheet of £2.183m in the 2009/10 opening balance sheet and £10.181m in the 2009/10 comparative balance sheet.

8 AUDIT OF THE STATEMENT OF ACCOUNTS 2010/11

8.1 The District Auditor has completed the audit of the council's accounts and their Annual Governance Report (AGR) which reports on the external assessment of the financial statements and arrangements to secure Value for Money forms part of this committee's agenda.

8.2 The AGR for 2010/11 states that the draft financial statements were of a good standard supported by good quality working papers and the council's work to produce IFRS compliant financial statements was comprehensive, well planned and well supported.

8.3 During the course of the audit, the external auditors detected a relatively small number of errors in the financial statements. There were a number of amendments to the accounts discussed and agreed with council officers; details of these amendments and the financial statements affected are included in Appendix 4 of this report.

8.4 There were other misstatements identified from the audit which were discussed between officers and external audit; however, for reasons set out in the letter of representation (see Appendix 1 of this report), the council has elected not to adjust the financial statements. Details of these unadjusted misstatements are detailed in Appendix 5 of this report.

8.5 Compilation of the financial statements relies on data extracted from the financial systems operated by the council including those systems which interface into the financial system. It is therefore, important for the auditors to be satisfied that these systems have adequate controls in place so that assurance can be given on the integrity of the information held within them. The main control weaknesses identified by the auditors were within the payroll system. This is a key system as it generates a large part of the council's expenditure. The auditors undertook additional substantive testing, which did not identify any cases of error or fraud. Recommendations by the Audit Commission to improve the control environment within the payroll system are included in Appendix 5 of the AGR.

9 SUMMARY OF ACCOUNTS

9.1 Each year, the council produces a summary version of the accounts which aims to provide summarised information about the council's performance and financial standing in a clearer and easier to understand format than the prescribed layout of the main Statement of Accounts. The Summary of

Accounts will be published on the council's website alongside the 2010/11 Statement of Accounts.

10 PUBLIC INSPECTION OF THE ACCOUNTS

10.1 Members of the public, in accordance with the Audit Commission Act 1998, are granted access for a four-week period to the council's unaudited Statement of Accounts and are invited to enquire on any aspect of these Accounts. If a member of the public is not satisfied with the response received, they are able to lodge a formal objection to the Accounts with the Audit Commission.

10.2 This year the council received an enquiry from two members of the public. These enquiries encompassed many areas of the Accounts. Responses to the queries have been compiled and sent. At the time of writing this report, the enquiries have not resulted in any objection to the Accounts.

11 EVALUATION OF ALTERNATIVE OPTIONS

11.1 After the Accounts have been made available for public inspection, alterations may only be made with the consent of the auditor, i.e. in this case the District Auditor. The alterations in this case have received her consent.

12 REASONS FOR REPORT RECOMMENDATIONS

12.1 It is a statutory requirement of the current Accounts and Audit Regulations that the council's 2010/11 Statement of Accounts should be approved by Members by the 30 September 2011.

12.2 To ensure that the Audit Committee is fully aware of the changes to the Accounts agreed with the auditor in response to the findings and recommendations arising from the audit of the accounts.

13 FINANCIAL & OTHER IMPLICATIONS

Financial Implications

13.1 Included in the body of the report.

Finance Officer Consulted: Jane Strudwick Date: 7 September 2011

Legal Implications:

13.2 The legal framework for approving the council's statement of accounts is provided by regulation 8 of The Accounts and Audit (England) Regulations 2011 (statutory instrument 2011/817), relevant details of which are set out in the body of the report.

13.3 The Regulations permit either Full Council or a committee of the council to approve the statement of accounts. As noted in the report, in Brighton & Hove it is the Audit Committee which fulfils this statutory role. Lawyer consulted: Oliver Dixon Date: 12 September 2011

Equalities Implications:

13.4 There are no equalities implications arising directly from this report.

Sustainability Implications:

13.5 There are no direct environmental implications arising from this report.

Crime & Disorder Implications:

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

Risk and Opportunity Management Implications:

13.7 There has been no direct risk assessment for this report.

Corporate / Citywide Implications:

13.8 The quality of a public authority's financial statements is of reputational importance and where the auditor gives an unqualified opinion, citizens, partners and other stakeholders can be assured that the statements present fairly the financial position of the authority. The quality and accuracy of the Statement of Accounts also impacts on the council's score under the Comprehensive Area Assessment framework.

SUPPORTING DOCUMENTATION

Appendices

Appendix 1: Letter of Representation

Appendix 2: Summary of the main changes for the 2010/11 accounting period as required by the transition to IFRS

Appendix 3: Commentary on the Statement of Accounts

Appendix 4: Details of amendments made to the Financial Statements

Appendix 5: Details of unadjusted misstatements

Documents in Members' Rooms

Statement of Accounts

Background Documents

None

Appendix 1

Letter of Representation

To:

Helen Thompson
District Auditor
Audit Commission
Bicentennial House
Southern Gate
Chichester
West Sussex
PO19 8EZ

Brighton and Hove City Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Brighton & Hove City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

<u>Pooled Budgets</u>

- The accounting treatment is consistent with that adopted in previous years;
- It matches the practice followed by our partners in the pooled budget arrangements and therefore provides a consistent approach;

<u>Housing Benefit Grant Income</u>

- Due to the previous post holder leaving the authority, resources would need to be diverted to complete a review of Housing Benefit grant accounting, any changes would not have a material affect on the accounts or impact on the net deficit of the Comprehensive Income & Expenditure Statement;
- A full review of the current year end reconciliation process will be carried out in time for the closing of the 2011/12 accounts

<u>Property, Plant and Equipment</u>

- These errors were brought forward from the disclosure note to 2009/10 financial statements.
- The impact to the 2010/11 statements is not material

Financing and Investment Income and Expenditure

- This adjustment has no impact on the overall financial performance reported in the Comprehensive Income and Expenditure Statement.
- A full review of the accounting for interest will be undertaken in time for the closing of the 2011/12 accounts

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of Brighton & Hove City Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Brighton & Hove City Council

I confirm that the this letter has been discussed and agreed by the Council on 27 September 2011

Signed

Name: Catherine Vaughan

Position: Director of Finance

Date: 27 September 2011

Appendix 2

Summary of the main changes for the 2010/11 accounting period as required by the transition to IFRS

Non current assets

The authority has a range of non current assets held on its Balance Sheet which were previously under UK GAAP categorised as operational assets and non operational assets. The transition to IFRS has led to a number of reclassifications of individual assets.

There is now a much tighter definition of what constitutes an investment property and this has led to a number of assets being reclassified from investment property to property, plant and equipment. IFRS also introduces a new category of asset "Assets Held for Sale" which can be classed as either a current asset or long term asset depending on when sale transactions are likely to be completed.

As part of the transition to IFRS, the authority also removed its voluntary aided schools from its Balance Sheet although playing fields owned by the authority has remained.

Although no formal revaluations took place in respect of these changes, there was an impact on the revaluation reserve. With the re-categorisation of assets, there was also an impact on the level of charge made in respect of assets to the Comprehensive Income and Expenditure Statement (e.g. depreciation, impairment and revenue expenditure funded from capital) and the Capital Adjustment Account.

Leases

The IFRS code of practice introduced a number of changes in the way the authority accounts for leases.

Leases on property are accounted for separately as leases on land (usually operational) and leases on buildings (finance). Previously there was no such split;

One of the factors that indicate a lease is a finance lease is if "the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset". Prior to IFRS substantially all meant 90% or more, this 90% rule has been removed under IFRS.

The authority leases out a number of its properties and the transition to IFRS has led to a number of these leases being reclassified from operating leases to finance leases with a decrease in property, plant and equipment and investment property categories on the balance sheet and an increase in long term debtors to recognise the lease as a long term debtor.

Short term investment and cash equivalents

The IFRS code of practice introduced a new definition of cash equivalents. Cash surpluses lent to cover cash shortages with maturities of no longer than three months were reclassified from short term investments to cash equivalents

Grants and Contributions

The authority receives a number of capital and revenue grants and contributions. The transition to IFRS required the authority to implement revised accounting treatment for grants and contributions dependent upon whether there is a condition(s) (as opposed to restrictions) attached to the grant or contribution (the condition being that grant or contribution is returned to the transferor if a specified future event does or does not occur). The authority is required to maintain an account for unapplied grants and assess, at the end of the financial year, whether a condition is outstanding in considering whether the grant or contribution should be recognised as income in the Comprehensive Income and Expenditure Statement.

Employee Benefits – Short term accumulated absences

Accumulating compensated absences are those that can be carried forward for use in future periods if the current period's entitlements are not used in full. The Code describes annual leave and flexi-time arrangements as usually being accumulating. The authority has made provision for short term accumulated absences by accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March.

Appendix 3

Commentary on the Statement of Accounts

Comprehensive Income and Expenditure Account (CI&E)

The level of General Fund working balance and general reserves held at 31 March 2011 was £16.137 million; this represents the working balance of the council and is deemed appropriate by the council's Chief Finance Officer. In addition there are also General Fund earmarked reserves of £67.918 million.

Segmental Reporting

The adoption of IFRS and the Code introduces segmental reporting with the aim to disclose information to enable users of the authority's financial statements to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates. Information on reportable operating segments is presented in note 36 and includes the following;

- An analysis of the income and expenditure for each segment which includes those items of income and expenditure that are reported as part of the authority's internal management reporting;
- A reconciliation between the segment reporting analysis and the cost of services in the Comprehensive Income and Expenditure Statement;
- A reconciliation between the segment reporting analysis and an analysis of total income and expenditure (i.e. a subjective analysis);
- Information on services included within each operating segment.

Reportable operating segments are based on the authority's internal management reporting.

Housing Revenue Account (HRA)

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.

The 2010/11 outturn for the HRA shows a net deficit of £1.377 million. The HRA reserves now stand at £4.700 million, which is well in excess of the recommended minimum level of balances of £2 million. In addition there are also HRA earmarked reserves of £2.498 million.

Balance Sheet (BS)

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

Non Current Assets

Total non current assets (including current assets held for sale) have decreased from £1,944,223 million as at 31 March 2010 to £1,846,036 million as at 31 March 2011. The in year movement in non current assets is detailed in notes 17 to 20 to the core financial statements. The movement of £98,187 million relates to the following:

- An increase of £72.525 million for additions to PPE which reflects the significant capital investments;

- PPE revaluation transactions of £97.995 million;
- Depreciation and Impairment transactions of £38.001 million;
- Downward movement in the fair value of investment properties of £5.571m
- Reduction in the value of housing stock due to a decrease in social housing factor leading to an impairment loss of £222.077 million
- Disposal of non current assets of £3.060 million;
- Other movements of £0.002 million;

Gains and losses on the disposal of fixed assets are charged to the comprehensive Income & Expenditure Statement but then reversed back out through the Movement in Reserves Statement on to ensure they do not impact on the Council Tax demand. However, the cost of disposal remains as a charge to revenue.

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 reduced in the year by £17.909 million.

During 2010/11, the authority entered into three forward borrowing deals totalling £30m of which two of these deals totalling £20m became operational in February 2011. The authority made a net repayment of £19m. Note 37 to the financial statements provides further information on borrowings.

Investments

At 31 March 2011, the authority held investments of £56.993m. Investments are made by the in-house treasury team and the authority's external cash manager. The authority uses an external cash manager to take advantage of investment opportunities in specialist markets not covered by the in-house team, such as government stock.

The level of investment has increased in year by £13.971m. Note 37 to the financial statements provides further information on investments.

Revaluation Reserve

This 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 Income and Expenditure Account. The reserve stands at £299.970 million as at 31 March 2011.

Earmarked Reserves

These represent funding that has been set aside for a specific purpose. The balance of £72.506 million at 31 March 2010 decreased to £70.416 million at 31 March 2011. Details of Earmarked Reserves held can be found in the notes to the core financial statements.

Schools' balances

Schools' balances have increased by £1.312 million from £2.567 million at 31 March 2010 to £3.879 million at 31 March 2011. 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 £3.879 million balance includes phases as follows: - primary schools £2.644 million, secondary schools £1.088 million, special schools £0.079 million and nursery schools £0.068 million.

There is an overall increase in carry forwards; and, the movement across phases shows variations as follows: - primary schools increased by £0.771m, secondary schools increased by £0.315m, special schools increased by £0.192m and nursery schools increased by £0.034m.

In total there are 9 schools (out of 70) with deficit balances (13% of total schools) and the split of these is as follows: - 5 primary schools (9% of primary schools), 2 secondary schools (25% of secondary schools) and 2 special schools (33% of special schools). School budget plans for 2011/12 will incorporate these overspends and the Council's Schools' Finance team have worked closely with schools to identify and support those requiring licensed deficits (approval to overspend) in the 2011/12 financial year

Pension Liability

The pension liability (net of pension assets) was £353.698 million at 31 March 2010 and it decreased by £247.141 million to £106.557 million at 31 March 2011.

A combination of changes in salary increase assumptions, the switch to CPI, the increased life expectancy assumptions and changes in the current service cost has made a significant net reduction in the authority's pension liability.

The authority also recognises a reserve for the estimated net pension liability. Therefore, amounts included in the authority's accounts in relation to post employment benefits have no effect on the council tax requirement as the liability is offset by a Pensions Reserve

Collection Fund

In 2010/11 there was an in year deficit of £3.271m on the Collection Fund, a movement of £8.093m from 2009/10 which had an in year surplus of £4.822m. The in-year deficit related mainly to a higher than anticipated entitlement to exemptions and discounts with £2.685m relating to the budgeted distribution of the previous years forecast collection fund surplus.

Provisions and Contingent Liabilities

Provisions have been made in the accounts for liabilities existing at the 31 March 2011 that are reasonably certain and can be estimated with reasonable accuracy. Provisions are included for the following:-

Accumulated Absences – Following the introduction of IFRS this is a new provision which relates to the accumulated compensated absences (e.g. annual leave and flexi leave) that are carried forward for use in future periods if the current period's entitlements are not used in full.

Single Status Liability Provision - The authority made proactive offers to groups of staff in relation to potential equal pay back pay liabilities and has implemented the outcome of a pay and grading review. The provision relates to potential outstanding liabilities that the authority is very likely to incur in relation to these matters. To help establish the potential liability, a legal review was conducted of all outstanding employment tribunal and internal grievance claims. This provision is separate to the single status earmarked reserve which is to meet potential liabilities that cannot be estimated with any certainty.

Voluntary Severance Scheme Provision - The authority has established a voluntary severance scheme to allow its officers to consider leaving their employment with the authority in return for a severance package. This scheme has been established to assist the authority in meeting its tough financial targets in 2011/12 whilst avoiding the need for compulsory redundancies. A provision has been set up to fund these costs.

Other Provisions – the authority has a number of other provisions which are individually insignificant. These include provisions for: Maintenance of Graves, Land Charges, Modern Records unit and Priory House Dilapidations.

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:-

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.

Appendix 4

Details of Amendments to the Statement of Accounts

Primary financial statements and supporting notes

There were a relatively small number of rounding, internal consistency, casting and disclosure errors in the draft financial statements that were made in the process of producing the financial statements and not caused by underlying accounting errors. These are explained more fully in the section of the AGR which considers the quality of your financial statements.

Non Current Assets

£351,000 of 2010/11 capital expenditure was accounted for and disclosed as relating to investment properties. This capital expenditure actually related to property, plant and equipment assets.

As part of the work to remove assets from the balance sheet where these assets leased by the council are subject to finance leases, an investment property and a further six property, plant and equipment assets were incorrectly written out of the balance sheet.

A council property with a closing value of £255,000 was re-classified in error during the year from investment properties to property, plant and equipment. As the property was re-classified as property, plant and equipment in error it was not revalued. It should have been revalued as an investment property.

As part of the 2010/11 fixed asset revaluation programme, land at the Dome complex and Hove Museum was reclassified as a community asset and impaired the carrying value of this land to zero. As this was a community asset the value of the land should have been accounted for at historic cost not nil value.

During 2009/10, land in Edward Street was reclassified as a non-current asset held for sale. Although it is the council's intention to sell the land, the sale is not expected to be completed until 2015 and should have been reclassified as property, plant and equipment.

The asset valuation for part of the land and building assets at Stanmer had been applied in error to the whole of the site.

Material items of income and expense

A significant impairment of approximately £222 million arose from the change in valuation basis for council dwellings. A significant credit of £82.4 million arose from the decrease in the past service cost in respect of defined benefit pension schemes which is due to this cost now being based on the consumer prices index rather than the retail prices index. The impact of these material items of income and expense were disclosed in note 5 to the financial statements. International Accounting Standard 1 requires material exceptional items such as this to also be disclosed on the face of the comprehensive income and expenditure statement. The council did not initially make this disclosure.

Pension Costs

As part of the 2009/10 Statement of Accounts, external audit identified a cumulative difference between the net pension liability and reserve reported in the council's Balance Sheet and the balance shown in the actuary's report.

Further information on this issue was received by the council from the East Sussex Pension Fund very close to the deadline for production and approval of the draft financial statements. In the draft financial statements, the council disclosed a non-adjusting post-balance sheet event in note 6 to the accounts based on the information available at the time. This disclosure confirmed that there were historic errors in the split of responsibility for contributions for unfunded benefits between the council and East Sussex County Council. These errors had resulted in differences between the actuary's initial assessment of the pension liability and associated entries which had been accounted for in the financial statements, and the amounts that should be accounted for based on the correct split of responsibilities for contributions for unfunded benefits.

Further consideration of this issue by council officers and external audit revealed that the historic errors in the split of employer contributions between the council and East Sussex County Council extended to both unfunded and funded benefits. An updated assessment of the council's pension liability and associated entries in the financial statements was therefore requested from the actuary.

As the conditions giving rise to this issue existed at the Balance Sheet date it should have been accounted for as an adjusting, rather than non-adjusting, event under IAS 10. The actuary's revised assessment of the pension liability and associated entries in the financial statements has therefore now been fully reflected in the audited financial statements, both for the year of account and previous year. A prior period error for this issue has been disclosed in the financial statements (see paragraph 7.3 above).

Capital grants and REFCUS

The council included capital within the taxation and non specific grant income line of the Comprehensive Income and Expenditure Statement. Capital grants financing Revenue Expenditure funded from Capital under Statute (REFCUS) should be matched to the service revenue account to which the REFCUS is being charged and be included within the cost of services within the Comprehensive Income and Expenditure Statement. There is no impact on the net deficit on the provision of services reported in the Comprehensive Income and Expenditure Statement. The council has elected not to make an adjustment as the time spent to make the adjustment is excessive compared to the benefit of making it.

Details of Financial Statements Affected by Amendments

Non Current Assets

The effect of various amendments described above in respect of non current assets on the Balance Sheet was:

The closing value of investment properties disclosed at note 18 and on the face of the balance sheet was overstated by £197,000, the closing value of property, plant and equipment assets at note 17 and on the face of the balance sheet was understated by £13,925,000 and non current assets held for sale disclosed in note 19 and on the face of the Balance sheet was overstated by £7,900,000.

The effect of the various amendments regarding the Comprehensive Income and Expenditure Statement was:

Expenditure charged to the comprehensive income and expenditure statement has reduced by £5,828,000.

Pension Costs

The effect of various amendments described above in respect of pension costs on the Balance Sheet was:

The pension liability disclosed in note 34 and on the face of the balance sheet (within the other long term liabilities line) was understated by £11,008,000 and the pension reserve on the face of the balance sheet (within unusable reserves) and various notes understated by the same amount.

The effect of various amendments regarding the Comprehensive Income and Expenditure Statement was:

Total Other Comprehensive Income and Expenditure has increased by £1,356,000.

Capitals Grants and Revenue Expenditure funded from Capital under Statute (REFCUS)

The effect of various amendments described above in respect of capital grants and REFCUS on the Comprehensive Income and Expenditure Statement was:

£9.5 million income was moved from the Taxation and Non Specific Grant Income line to Cost of Services. Various notes were amended in respect of this adjustment.

There was no impact on the Balance Sheet

Notes

1) The above adjustments in respect of non current assets and pension costs also had an impact on the Movement in Reserves Statement and the Cash Flow Statement
2) The figures above include the cumulative effect of adjustments, some adjustments required amendment to prior year comparatives. The figures above show the adjustment on the Balance Sheet as at 31 March 2011.

Appendix 5

Details of Unadjusted Misstatements to the Statement of Accounts

Pooled Budgets

External audit highlighted that none of the partners in the pooled budgets in which the council participates are accounting for pooled budgets as a joint venture under IAS 31. External audit recommended that the financial statements should be adjusted; however the council has elected to not adjust for this as the changes are not material to the accounts and the council's treatment of the arrangements is consistent with previous year's accounts and with the accounting treatment followed by our partners.

Housing Benefit Grant Income

As part of a review of revenue grant income, external audit considered the year end reconciliation of housing benefit grant income. Adjustments were made to the accounts following the reconciliation which external audit are of the opinion overstate income and expenditure in the other housing services line of the comprehensive income and expenditure statement.

It is not possible to accurately verify these adjustments without a great deal of officer time being spent and the council will be undertaking a full review of the current year end reconciliation process so that this issue is addressed. This adjustment has no impact on the net expenditure disclosed in the financial statements or overall financial performance reported. For these reasons, the council declined to make the adjustment to the accounts.

Non Current Assets

Following the restatement work of Property, Plant and Equipment differences of net £64,000 were noted in the prior year (2009/10) disclosures in the financial statements. These errors were brought forward from the 2009/10 financial statements. The impact to the 2010/11 statements is not material and for this reason the council has elected not to make an adjustment to the accounts.

Financing and Investment Income and Expenditure

Internal recharges of external interest was misclassified in the Comprehensive Income and Expenditure Statement which resulted in a £3 million overstatement of financing and investment income and expenditure and an understatement of net cost of services by the same amount. This adjustment has no impact on your overall financial performance reported in the Comprehensive Income and Expenditure Statement.