AUDIT COMMITTEE	**Agenda Item 87** Brighton & Hove City Council

Subject:		**2011/12 Statements of Accounts Preparation**	
Date of Meeting:		**24th April 2012**	
Report of:		**Director of Finance**	
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Wards Affected:	All		

FOR GENERAL RELEASE

1 SUMMARY AND POLICY CONTEXT

1.1 This report provides the Audit Committee with information on the changes for the 2011/12 Statement of Accounts and should be read in conjunction with the Audit Commission's Audit Plan for the audit of the 2011/12 financial statements.

2 RECOMMENDATION:

2.1 The Audit Committee is recommended to note the changes for the 2011/12 Statement of Accounts.

3 REASON FOR RECOMMENDATION

3.1 To ensure the Audit Committee has up to date information on the changes that the council is required to make to its accounting practices to comply with the statutory frameworks for producing its accounts for the 2011/12 financial year.

4 BACKGROUND INFORMATION

4.1 Under the Accounts and Audit Regulations, the council's accounts must comply with proper practice. Local Government financial statements are prepared using accounting principles based on International Financial Reporting Standards (IFRS). Compliance with IFRS is achieved through the application of the "Code of Practice on Local Authority Accounting" (the Code). The Code is published annually by the Chartered Institute of Public Finance and Accountancy (CIPFA).

4.2 In England and Wales, the Code is part of the 'proper practices' requirements governing the preparation of an authority's Statement of Accounts referred to in section 21 of the Local Government Act 2003. All English authorities to which section 21 applies and that are required to prepare a Statement of Accounts by the Accounts and Audit Regulations under section 27 of the Audit

Commission Act 1998, therefore have a statutory duty to comply with the Code's requirements.

4.3 The 2011/12 Code, which relates to the financial year commencing on 1 April 2011, introduces some changes in accounting practice which the council needs to comply with. These changes are detailed in Section 5 below.

5 2011/12 STATEMENTS OF ACCOUNTS

5.1 The 2011/12 Code has introduced a small number of changes that will need to be implemented for the 2011/12 accounts. The key issues which will affect the council's financial statements are detailed below.

5.2 **Heritage Assets (FRS 30)**

5.2.1 The 2011/12 Code requires, for the first time, the recognition of heritage assets. Heritage assets are those assets held by the council that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They include historical buildings such as the Royal Pavilion, historic motor vehicles such as the Volks Railway and museum and gallery collections and works of art.

5.2.2 A review of our current assets held has taken place to re-categorise assets that meet the definition for a heritage asset. Discussions have also taken place with various service managers to ensure all assets that could be captured under the definition have been identified and are included on the council's balance sheet.

5.2.3 Identified heritage assets will be held on the council's balance sheet using insurance valuations. This is likely to result in a significant increase in the non current assets value held on the balance sheet for 2011/12.

5.2.4 As this is a retrospective change in accounting policy, the comparative figures for the 2011/12 Statement of Accounts will be adjusted.

5.3 **Carbon Reduction Commitment (CRC) Scheme**

5.3.1 2011/12 is the first year that the council is required to account for CRC emissions under the CRC scheme. The scheme is in its introductory phase.

5.3.2 Under the scheme, the council has an obligation to purchase and surrender CRC allowances in relation to carbon dioxide emissions at the reporting date. The council purchases the allowances from the government. The council surrenders the allowances to the scheme in proportion to its reported emissions for the preceding scheme year and in accordance with the scheme requirements.

5.3.3 The obligation arises at the point at which the energy is consumed and carbon dioxide emitted. At this point, a liability and expense are recognised by the council with the liability being discharge by the surrendering of allowances. The financial measurement of the obligation is based on the requirements under the authority's accounting policy for provisions. The liability is measured according to the best estimate of the expenditure required to settle the obligation. This is normally the number of allowances required to meet the liability at current market price. The cost of the obligation is charged to services and is apportioned on the basis of energy consumption.

5.4 **Exit Packages**

5.4.1 The 2011/12 Code requires the disclosure of exit packages paid to employees. Exit Packages include compulsory and voluntary severance costs, pension contributions in respect of added years, ex gratia payments and other departure costs.

5.4.2 The council is required to disclose the number of exits in bands of £20,000 up to £100,000 and bands of £50,000 thereafter analysed between compulsory redundancies and other departures. The council is also required to disclose the total cost of packages agreed in each band. Bands can be combined where this is necessary to ensure that individual exit packages cannot be identified (except where disclosure of payments to the individuals is required elsewhere within the Code).

5.5 **HRA Self Financing**

5.5.1 With effect from 1st April 2012 the HRA subsidy system was abolished and replaced with a new system of self financing. Under the new system the council was required to take on additional debt totalling £18.081 million. This payment was made to central government on 28th March 2012 and will be shown as an extraordinary payment in the HRA accounts for 2011/12 in accordance with guidance issued in Local Authority Accounting Panel (LAAP) Bulletin 92.

6 HOUSING LOCAL DELIVERY VEHICLE (LDV)

6.1 On 23 September 2011 the council finalised an agreement to lease 499 vacant HRA properties to Brighton & Hove Seaside Community Homes Limited ("Seaside Homes Ltd"). This would be achieved over a five year period and each lease would be for 99 years. In the period to 31st March 2012 a total of 150 properties have been leased.

6.2 A review of the leases has been undertaken in accordance with the qualitative test required under the Code and, based on the property portfolio of all 499 properties, the council has assessed the leases as finance leases. The council's proposal is for the assets (i.e. properties) to be written out of the council's balance sheet in the year of lease and the lease premium received from Seaside Homes Ltd treated as a capital receipt.

Group Accounts Implications

6.3 A review of the relationship between the council and Seaside Homes Ltd has been undertaken to determine the need for group accounts within the council's Statement of Accounts.

6.4 The council has reviewed the relationship based on the 6 tests set out in CIPFA's Group Accounts in Local Authorities Practitioners Workbook.

6.5 The council and the Audit Commission have agreed that there is no requirement for Seaside Homes Ltd to be accounted for as an associate of the council and therefore no group accounts are required.

7 FINANCIAL & OTHER IMPLICATIONS

Financial Implications

7.1 The changes introduced in the 2011/12 Code may give rise to a change in the net expenditure reported each year, however, any impact on Council Tax will be mitigated through statutory accounting adjustments. There are therefore no budgetary or council tax impacts from the changes highlighted in this report.

Finance Officer Consulted: Jane Strudwick Date: 27 March 2012

Legal Implications*:*

7.2 This report is for information only. The statutory provisions relevant to this report are referred to in paragraph 4.2. There are no legal implications arising from this report.

It is proper for the Audit Committee to consider this report, in line with its terms of reference.

Lawyer consulted: Sarita Arthur-Crow Date: 13 April 2012

Equalities Implications*:*

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

Sustainability Implications*:*

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

Crime & Disorder Implications*:*

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

Risk and Opportunity Management Implications:

7.6 Risks in relation to the accuracy of the financial statements are considered as part of the statutory accounts process.

Corporate / Citywide Implications:

7.7 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.

SUPPORTING DOCUMENTATION

Appendices

None

Documents in Members' Rooms

None

Background Documents

None