# AUDIT & STANDARDS COMMITTEE	**Agenda Item 12** Brighton & Hove City Council

Subject:		**Statement of Accounts 2011/12**	
Date of Meeting:		**26 June 2012**	
Report of:		**Director of Finance**	
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Wards Affected:	All		

FOR GENERAL RELEASE/ EXEMPTIONS

1 SUMMARY AND POLICY CONTEXT

1.1 Under the Accounts and Audit Regulations 2011, the council's Statement of Accounts are to be approved by the Chief Finance Officer by 30 June and following the audit process are to be approved by Members by 30 September each year. Under Brighton & Hove City Council's constitution, the Audit and Standards Committee is charged with this responsibility.

1.2 Accordingly, this report presents the unaudited Statement of Accounts for 2011/12 for information purposes only. Copies of the Statement of Accounts are distributed to each member of the Audit and Standards Committee. At this stage, the accounts have not been audited by the external auditor. It is expected that the external auditor will present an Annual Governance Report to the September meeting of this committee on the conclusion of the audit of the 2011/12 financial statements. An accompanying officer report will be presented to that meeting, to enable Members to consider and approve the statement of accounts.

2 RECOMMENDATIONS:

2.1 That the Audit and Standards Committee note the Statement of Accounts for 2011/12 and note that these are subject to audit.

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 approved by the Chief Finance Officer by 30 June and considered by a committee or Full Council, and approved by a resolution of that committee or meeting by 30 September. The accounts must be published and signed off by the external auditor as soon as reasonably possible after conclusion of the audit and by 30 September.

4 FORMAT OF THE ACCOUNTS

4.1 The council is required to present its financial statements on an International Financial Reporting Standards (IFRS) basis in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and cover the period 1 April 2011 to 31 March 2012.

4.2 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, the notes to the accounts and accounting policies.

4.3 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, there are no activities requiring the preparation of Group Accounts in 2011/12.

4.4 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
- Cash Flow Statement
- Notes to the Financial Statements
- Accounting Policies

4.5 The supplementary statements comprise the following:-

- Housing Revenue Account
- Collection Fund Account

5 KEY CHANGES IN THE 2011/12 FINANCIAL STATEMENTS

5.1 <u>Heritage Assets</u>

5.1.1 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, historic windmills and museum and gallery collections and works of art.

5.1.2 A review of the council’s non current assets held (e.g. land, buildings, plant and equipment) has taken place to re-categorise assets that meet the definition for a heritage asset. The identified heritage assets are now included in the council's Balance Sheet using insurance valuations.

5.1.3 This change was a retrospective change in accounting policy and therefore required the recognition of the assets at 1 April 2010 (i.e. a third Balance Sheet).

5.1.4 The council has identified that assets to the value of £7.055m as at 1 April 2010, that were previously held as community assets, other land and buildings and vehicles, furniture, plant and equipment, should now be recognised as heritage assets. Additional heritage assets that were not previously recognised in the Balance Sheet have also been brought on to the council's Balance Sheet in 2011/12. The total value of those assets identified as heritage assets as at 1 April 2010 is £177.721m thereby increasing the asset value of non current assets as at 1 April 2010 by £170.666m.

5.1.5 The value of heritage assets as at 31 March 2012 have been updated for revised insurance valuations in 2011/12 and the value at this date is £182.301m. Note 17 to the financial statements and the significant changes in accounting policy section of the explanatory foreword includes more detail.

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

5.2.1 The financial year 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.

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

5.2.3 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 discharged by the surrendering of allowances. The measurement of the obligation is based on the requirements under the council's accounting policy for provisions. The liability is measured at the best estimate of the expenditure required to settle the obligation, normally at the current market price of the number of allowances required to meet the liability at the end of the financial year. The cost of the obligation is charged to services and is apportioned on the basis of energy consumption.

5.2.4 At 31 March 2012, the council had an obligation to meet its CRC responsibilities of £0.271m and has set aside this amount as a provision. This obligation is based on a CO^2 usage of 22,608 tonnes at £12 per tonne; the CO^2 usage is based on the council's carbon footprint as at 2010/11 as submitted to the Department of Energy and Climate Change on 30th September 2011.

5.2.5 Note 43 to the financial statements includes more detail.

5.3 **Exit Packages**

5.3.1 From 2011/12, 'the Code' requires the disclosure of exit packages paid to employees. Exit Packages include compulsory and voluntary severance costs, including pay in lieu of notice.

5.3.2 The council is required to disclose the number of exit packages 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).

5.3.3 The council has disclosed £1.695m of exit packages in 2011/12. Note 31 to the financial statements includes more detail.

5.4 **HRA Self Financing**

5.4.1 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 £18.081m. This payment was made on 28th March 2012 and is shown as an exceptional payment in the financial statements for 2011/12.

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") over a five year period. In the period to 31 March 2012 a total of 150 properties had 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 has written out the assets (i.e. properties) from its Balance Sheet in the year of lease and has accounted for the lease premium received from Seaside Homes Ltd as a capital receipt.

6.3 In 2011/12, the write out of the 150 leased properties has been treated as asset disposals in the council's financial statements. The carrying value on the council's Balance Sheet as at 31 March 2011 for the 150 transferred properties was £10.038m; this valuation was provided by the council's external valuers based on Existing Use Value. The capital receipt received by the council in respect of the transferred assets was £6.462m and is held in the Capital Receipts Reserve on the Balance Sheet. This was based on a best consideration (i.e. market value) valuation prepared by external property advisors and takes account of the full portfolio of 499 properties. The difference between the carrying valuation and the capital receipt is included in the council's Comprehensive Income and Expenditure Account. A further sum of £2.058m is due to the council when certain works to the transferred properties are completed.

6.4 The council has included a contingent liability in respect of Brighton & Hove Seaside Community Homes Ltd. The liability has arisen from an indemnity provided by the council to the organisation's funder whereby the rental income received by the organisation from its tenants equals, as a minimum, the projected income set out in the organisation's approved business plan. The council is not able to determine the probability of the indemnity being called upon in the long-term as the level of future rental income is dependent upon factors outside the council's control. However, on the basis of current rent levels the council has considered the probability of the indemnity being called upon within the next twelve months as being very low.

Group Accounts Implications

6.5 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.

6.6 The council has reviewed the relationship based on the six tests set out in CIPFA's Group Accounts in Local Authorities Practitioners Workbook Second Edition 2011. The council's assessment is 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. The Audit Commission concurs with the council's view.

7 TARGETED BUDGET MANAGEMENT (TBM)

7.1 During 2011/12, Cabinet received regular Targeted Budget Management (TBM) reports in respect of the council's expenditure against the Budget. A revenue outturn report was taken to Policy and Resources Committee on 14 June 2012 showing a provisional underspend for the General Fund of £4.370m. There was no change in the final outturn position. This underspend has been transferred to the General Fund Working Balance. The revenue outturn report of 14 June 2012 contains full details.

7.2 The level of General Fund working balance and general reserves held at 31 March 2012 was £16.976m as shown in the Movement in Reserves Statement. The revenue summary section of the explanatory foreword to the Statement of Accounts provides information on the underspend and level of reserves held.

8 EVALUATION OF ALTERNATIVE OPTIONS

8.1 The purpose of this report is to note the Statement of Accounts for 2011/12.

9 REASONS FOR REPORT RECOMMENDATIONS

9.1 The purpose of this report is to note the Statement of Accounts for 2011/12.

10 CONSULTATION

10.1 The purpose of this report is to present the council's Statement of Accounts for 2011/12. There has been no external consultation. Residents of Brighton and Hove are able to inspect the accounts during the period 25 June 2012 to 20 July 2012.

11 FINANCIAL & OTHER IMPLICATIONS

Financial Implications

11.1 There are no financial implications.

Finance Officer Consulted: Jane Strudwick Date: 12 June 2012

Legal Implications:

11.2 The relevant statutory requirements relating to the Statement of Accounts are summarised in the report, in particular at paragraphs 1.1 and 3.1.

The report is for noting only. As indicated, the Committee has until 30 September in which to approve the statement of accounts, and officers will prepare a separate report on that process for consideration by the Committee in time to comply with the statutory deadline.

Lawyer consulted: Oliver Dixon Date: 14 June 2012

Equalities Implications:

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

11.4 Summary accounts will also be published.

Sustainability Implications:

11.5 There are no direct environmental implications arising from this report. However, it is believed that the reputation of the council's financial control 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:

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

Risk and Opportunity Management Implications:

11.7 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:

11.8 Any material changes resulting from the conclusion of the audit will be included in the Accounts to be reported to the Audit and Standards Committee in September 2012.

SUPPORTING DOCUMENTATION

Appendices

None

Documents in Members' Rooms

None

Background Documents

None