STATEMENT OF ACCOUNTS FOR 2011/12

Purpose of the Report

1. The purpose of this report is to provide Members of the Audit Committee with a summary of the 2011/12 Statement of Accounts including a number of the key notes to the accounts. A full set of accounts will be presented to the September Audit Committee.

2. This report also outlines the approval process for the statement of accounts, comments on the financial performance of the Council and includes information relating to debtor income write off.

Approval process

3. The Statement of Accounts has been prepared in accordance with the IFRS-based (International Financial Reporting Standards) Code of Practice on Local Authority Accounting in the United Kingdom and the statutory Accounts and Audit Regulations. This ensures that local authorities produce their Accounts in a standard way, which facilitates comparisons.

4. The Accounts and Audit Regulations 2011 set out the procedures for certification, approval and publication of the Statement of Accounts. The key dates in the process are as follows:

    - 30 June 2012 – Unaudited accounts to be certified by the Executive Director of Resources.

    - July to September – The statement of accounts are subject to audit by the Authority's auditors, the Audit Commission and their findings will be reported to the Audit Committee in September. During this time there is a period where the public can inspect the accounts and related documents, which is from 16 July to 10 August 2012.

    - No later than 30 September 2012 – Accounts to be re-certified by the Executive Director of Resources.

    - No later than 30 September 2012 – Audit Committee considers and approves the statement of accounts. Following approval, the Chair of the Audit Committee signs and dates the Statement of Accounts.

- No later than 30 September 2012 – Publish, on the Council's website, the statement of accounts together with any certificate, opinion or report issued by the auditor.

5. The accounts are currently in the process of being audited and are therefore considered as draft and subject to potential amendment. The final version will be submitted to the Audit Committee in September. Attached as Appendices are the main accounting statements such as the Balance Sheet and Comprehensive Income and Expenditure Statement as well as some of the main notes to the accounts.

6. It is intended that a Final Accounts Workshop will be set up for Members to be briefed on some of the key features of the Accounts and to be prepared for a more detailed review prior to publication. This will be supported by an external facilitator.

Difference in accounting treatments

7. The introduction of IFRS was designed to standardise the accounts of private sector and public sector organisations. However there are areas of difference mostly due to legislative requirements relating to the calculation of the Council Tax and the costs that are excluded from the calculation but included in the Statement of Accounts. The main significant differences are in the way the Council accounts for the costs of capital and pensions:

   - Capital: Local Authorities account for capital in accordance with IFRS requirements and include these within the Comprehensive Income and Expenditure Statement (CIES). However the IFRS capital charges are "reversed" out in an adjustment between accounting basis and funding basis under regulation, so that they do not impact on the amount collected in council tax. This includes items such as depreciation that would be a significant cost in a commercial organisation but which cannot be included in the Council's "Budget Requirement" or funded by Council Tax.

   - Pensions: the Council makes employer contributions to the local government pension scheme of approximately 19%. However the accounting standards requirements means accounting for pension liabilities when the commitment to providing them has been entered into rather than when they are actually paid out. The Council complies with the standard and recognises the Council's share of the net liability of the South Yorkshire

Pension Scheme in the balance sheet. The impact of the accounting adjustments is again “reversed out” as it cannot affect the Budget or Council Tax income.

Financial Position of Council at year end

8. The report on the Revenue Outturn position at the end of the 2011/12 financial year was considered by Cabinet on 20 June 2012. This reported that the overall level of resources carried forward from 2011/12 into 2012/13 totalled £13m. This movement on reserves and level of resources that were originally budgeted for but not utilised in 2011/12 represented the financial performance of the Council in terms of spending compared to the net £480m budget on General Fund (i.e. non housing) services.

9. The CIES shown in Appendix 2 indicates that the Council’s operations generated a surplus of £245m in 2011/12. The Statement of Accounts therefore presents a very different picture regarding the Council’s financial “performance” in 2011/12. The key issue here is that items are included in the CIES that would have significance to a commercial organisation but which are excluded from the Council’s Budget and Council Tax calculations and only become visible to the Council at year end financial accounting. The overall difference in outturn position compared to CIES is as follows:

	£M
Underspend on General Fund Revenue Account	-6.2
Other approved carry forwards	-6.8
Deficit on Housing Revenue Account	0.2
Surplus on Schools Accounts	-0.7
Overall movement on Revenue Reserves compared to Budget	-13.5
Removal of debt charges	-22.3
Removal of pension contributions	-46.5
Items that do not affect Council Tax:	
- Inclusion of accounting charges for depreciation, holiday pay, PFI etc	175.1
- Inclusion of HRA self financing settlement	-518.3
- Deficit on revaluation of non-current assets & impairments	85.7
- Actuarial losses on pension assets	94.9
Surplus on Income & Expenditure Statement	**-244.8**

10. One of the most significant issues related to the introduction of a new financing regime for the Housing Revenue Account (HRA) which although not introduced until April 2012 impacted on the CIES for 2011/12. The housing subsidy system has been abolished and replaced by a new self-financing regime, which involved the writing off of housing debt by the Government. The Council received a one off debt settlement of £0.5 billion in March 2012. As the PWLB loans were written off directly the Council did not receive any cash but the value of PWLB loans redeemed has been shown as income to the HRA.

11. The surplus on CIES in 2011/12 is reflected in the balance sheet position, which shows an increase in the total Net Assets of the Council. Historically the budget process has been the most important business process in local government and often little attention has been paid to the balance sheet position. The Council are looking to do further work in this area and to develop balance sheet health indicators that will inform performance reporting to Cabinet.

New reporting/accounting issues for 2011/12

12. Although the 2010/11 financial year saw the most significant change in local

authority financial reporting with the move to accounting in accordance with IFRS, there have been two further changes in 2011/12:

- Heritage Assets is a new category of assets not previously recognised in the accounts and is defined as 'assets held principally for their contribution to knowledge and culture'. Heritage Assets include civic regalia, museum and gallery collections and works of art. The asset accounting entries have been added into the balance sheet, largely using insurance valuations, with notes to the accounts providing further information. The inclusion of these accounting entries has required a restatement of the 2010/11 figures to ensure a proper basis for comparison

- Termination Benefits are amounts payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are often lump-sum payments, but can also include enhancement of retirement benefits and salary until the end of a specified notice period. There is a new disclosure note required in the accounts that shows the number and cost of termination payments agreed in 2010/11 and 2011/12.

13. There is an additional prior period adjustment in the accounts to reflect a data cleansing exercise on property assets. The Asset Data Records Management Project was tasked with improving the quality of data reported for assets; the merging of several databases required some duplicate assets and other errors to be written out of the accounts, totalling £10m. This has resulted in a restatement of the figures for 2010/11.

Writing off of debtor income

14. The Statement of Accounts for 2011/12 includes a balance on "sundry debtor" income (i.e. income from fees and charges) of approximately £105m at 31 March 2012. This is net of a provision for bad debts.

15. The Audit Committee have asked for information relating to the amount of debtor income written off during the year. The amount of sundry debtor income that was written off in 2011/12 amounted to approximately £1.4m A closer analysis of this figure reveals the following:

- In terms of analysis by age, the amounts written off relate to debtor accounts raised between April 2001 and March 2012: i.e. the amounts stretch over 11 financial years.

- In the 2011/12 financial year approximately 170,000 sundry debtor accounts were raised with a total value of £283m. The amount written off in 2011/12 that directly relates to that financial year is approximately £350,000 or 0.12% of the total value. In some cases the amounts written off will relate to disputed accounts where it has been subsequently agreed that an account should be cancelled.

- Nearly 60% of the amount written off is attributable to the Communities Portfolio and will mainly relate to contributions due from service users towards the cost of adult social care. It will also include accounts for housing repairs where damage has occurred prior to a tenancy being vacated.

16. The Council has a good record in terms of the collection of sundry debt income with 90% collected in 60 days. Part of the approach involves looking to distinguish between those who can't pay from those who won't pay. Overall the Council does not give up easily and where a debtor account has not been paid the Council's policy requires robust action to be taken up to and including court action to recover money owed. If recovery action is unsuccessful, debtor accounts that are deemed to be no longer collectable may be written off. The main reasons for write off are:

- The debtor is no longer at the known address and has not been traced to an alternative address.

- The individual to whom the account was sent is deceased. This is particularly relevant in the case of charges for adult social care.

- The debtor has become insolvent

- The amount due is small relative to the costs of further recovery action and is therefore uneconomic to pursue.

Financial Implications

17. There are no direct financial implications arising from the recommendations in this report.

Equal Opportunities Implications

18. There are no specific equal opportunities implications arising from the recommendations in this report.

Property Implications

19. There are no property implications arising from the recommendations in this report.

Recommendations

20. The Audit Committee is recommended to note the core financial statements and the key notes to the Statement of Accounts for 2011/12.

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