TO: GOVERNANCE AND AUDIT COMMITTEE
25 SEPTEMBER 2012

FINANCIAL STATEMENTS 2011/12
(Borough Treasurer)

1 PURPOSE OF REPORT

1.1 In accordance with the Accounts and Audit (England) Regulations 2011 the Borough Treasurer signed the draft 2011/12 Statement of Accounts on 25 June 2012. Copies of the draft Financial Statement were subsequently circulated to all Council Members. The accounts were then subjected to audit by the District Auditor. This report summarises for Committee Members the key elements within the accounts, the findings of the audit and highlights the key changes made to the Statements - a revised set of which are attached.

1.2 It should be noted that none of the changes made as a result of the external audit have a detrimental impact on the Council's overall financial position.

2 RECOMMENDATIONS

That the Committee:

2.1 Approves the Financial Statements 2011/12 (attached);

2.2 Notes the out-turn expenditure for the year and approves the provisions (£0.902m per section 5.3) and earmarked reserves (£16.555m per section 5.4);

2.3 Authorises the Chairman of the meeting to sign and date the Statement of Accounts on behalf of the Committee;

2.4 Approves the Draft Letter of Management Representation set out in Appendix 4 of the District Auditor's Annual Governance Report.

3 REASONS FOR RECOMMENDATIONS

3.1 The Accounts and Audit (England) Regulations 2011 require the accounts to be approved by Council (or Committee of the Council) and the Chairman of the meeting to formally sign the accounts to certify that this has been undertaken.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 None.

5 SUPPORTING INFORMATION

5.1 Outturn Expenditure 2011/12

5.1.1 The Council, at its meeting on 2 March 2011, approved a revenue budget for 2011/12 of £76.255m.The actual outturn for the General Fund is within budget with an under spend of -£1.886m. This is the fourteenth consecutive year the Council has managed to spend within its budget. In fact the Council had planned to use £1.590m from General Balances to support the 2011/12 budget. Taking this under spend into account the Council actually returned £0.296m to reserves. The most significant variance was an under spend of -£1m on People with Learning Disabilities. A detailed comparison of the outturn and estimated expenditure is provided in the Explanatory Foreword on pages 4 to 6 of the Financial Statements.

5.1.2 The Council had deposits of £2m with Heritable and £3m with Glitnir which are both Icelandic banks that have been put into receivership/administration. The Council's preferential creditor status for the Glitnir deposit was confirmed during the year and a payment made by the Winding up Board in March. The payment was made in a number of currencies which were then converted into a sterling value of £2.521m. The balance payable will be held in Icelandic Krónur in an interest bearing escrow account in Iceland until the currency controls are relaxed by the Icelandic Government. This represents approximately 19% of the total amount payable and as at 31 March 2012 was valued in the accounts at approximately £0.57m indicating that the original deposit is likely to be recovered in full plus some interest. The timing of the final payment is uncertain. The Council set up an earmarked reserve in 2009/10 to cover any losses and in particular to guard against the possibility that preferential creditor status was rejected for Glitnir. Due to the developments on Glitnir, £2.2m of the earmarked reserve has been released back into general reserves.

5.1.3 For Heritable, the latest guidance assumes that approximately 88% of the deposit plus accrued interest up to the 6 October 2008 will be repaid. A total repayment of £0.366m was received (17.8%) in 2011/12 bringing the total received as at 31 March 2012 to £1.394m (67.9%). A further five payments are expected to be made between April 2012 and April 2013. An additional £0.136m (6.6%) has already been received in 2012/13.

Comprehensive Income and Expenditure Statement

5.1.4 The Statement shows a surplus on the Provision of Services of -£1.181m. This is because the statement shows the cost of providing services in accordance with accounting practices, rather than the amount to be funded from taxation. The taxation position which shows the real impact on the General Fund is shown in the Movement in Reserves Statement. The Comprehensive Income and Expenditure Statement also includes gains arising from the revaluation of assets and reductions in pension liabilities. The total figure of £45.357m explains the change in the net assets of the Council presented in the Balance Sheet.

5.1.5 In 2010/11 the change in the inflation factor used to up-rate pension increases to the Consumer Prices Index (CPI) resulted in a material past service gain (£29.3m) which was treated as an exceptional item. This suppressed the overall Cost of Services in the 2010/11 accounts. The one-off nature of this item is also the main reason for the increase in the Cost of Services figure between 2010/11 and 2011/12. The significant increase in net spend on Adult Social Care primarily relates to the classification of Learning Disability and Health Reform Grant as a specific non-ringfenced government grant in 2011/12 (-£7.8m). The significant reductions in net spend on Children's and Education Services results from a reduction in capital charges partly offset by a reduction in government grants.

5.2 Changes to Accounting Policies

5.2.1 Heritage Assets are recognised as a separate class of asset for the first time in 2011/12 following the adoption of Financial Reporting Standard 30 within the Code of Practice on Local Authority Accounting 2011/12. Heritage assets are maintained principally for their contribution to knowledge and culture. The impact of the standard on the Council is not material. Although the Council has a number of sites of archaeological interest within its boundaries, it is not possible to place a value on these and consequently they are not recognised on the balance sheet. The remaining heritage assets comprising civic regalia, a statue and a brickworks chimney are valued at less than £0.2m.

5.3 Provisions

5.3.1 The Council's balances contain specific provisions for known liabilities where the timing or amount of the liability is uncertain. These are considered each year as part of the budget cycle to ensure adequacy and need, and are again reviewed at the year end, in considering the annual accounts.

5.3.2 The Council acquired a number of properties in Market Square to support the regeneration of the town centre in 2010/11. A compulsory purchase order process was used to acquire the properties and a provision was set up last year to cover the potential cost of the purchases. As at 31 March 2012 the cost of a number of the purchases was still subject to negotiation. A provision of £0.7m remains.

5.3.3 A provision of £0.2m was set up at the end of the year for the estimated cost of carbon allowances required to cover the Council's CO_2 emissions for 2011/12.

5.4 Revenue Reserves

5.4.1 These are the reserves of the authority at 31 March 2012, consisting of Earmarked Reserves, the General Reserve and other Revenue Reserves (e.g. Pension Reserve).

5.4.2 Earmarked Reserves are sums of money which have been set aside for specific purposes. These are excluded from general balances available to support revenue or capital expenditure. Earmarked Reserves totalling £16.555m, an increase of £5.235m on last year's figure, are proposed and are detailed in Table 1.

5.4.3 The Borough Treasurer has taken the opportunity to review earmarked reserves and adjusted them to reflect the changing risks the organisation faces and these changes were presented to the Executive in the Revenue Expenditure Outturn 2011/12 Report on 3 July 2012. The Council's Reserves and Balances Policy Statement which sets out the purpose of each reserve is attached at Annex A.

5.4.4 The Pension Reserve, created to comply with the requirement of International Accounting Standard 19 – Employee Benefits (IAS19), is showing a net liability of £134.8m. This is an increase of £61.0m on last year. Due to the valuation methodology and the derivation of the main financial assumptions required by IAS19, the numbers produced year on year can be extremely volatile. The net pension liability has increased significantly from last year primarily because of a steady fall in corporate bond yields and a reduction in the real discount rate used to assess future inflation. Both factors have significantly increased the valuation of liabilities. This accounting treatment differs from the approach used at the actuarial valuation, which is the means by which the actual employers' contribution rate to the pension fund is determined, taking account of any surplus or deficit on the fund. The next formal review is due in 2013 for implementation on 1 April 2014.

5.4.5 The Collection Fund Adjustment Account (£0.124m) is an unusable reserve which represents the difference between the Council Tax income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund.

5.4.6 The Accumulated Absences Account is an unusable reserve which absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year (e.g. annual leave and flexi-time entitlement carried forward at 31 March). Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from this Account (£4.902m).

Table 1: Earmarked Reserves

	31 March 2012	**31 March 2011**	**Change**
	£000	£000	£000
Schools' Balances Held Under a Scheme of Delegation	4,531	2,776	1,755
Other Schools' Balances	1,448	838	610
Repairs and Renewals	29	35	(6)
Budget Carry Forwards	501	410	91
Insurance & Uninsured Claims	2,188	2,119	69
Cost of Structural Change	1,500	1,594	(94)
Regeneration of Bracknell Town Centre	0	235	(235)
Education Library Service	101	100	1
Commuted Maintenance of Land	142	142	0
S106 and Travel Plan Monitoring	81	71	10
Local Economy Steering Group	6	6	0
Capital Feasibility Studies	149	191	(42)
Icelandic Banks	262	2,341	(2,079)
Social Care Winter Pressures	0	212	(212)
Education Initiatives	0	150	(150)
Financial Systems Upgrade	56	100	(44)
Property Searches Chargeable Account	26	0	26
Business Rates Equalisation	2,000	0	2,000
Transformation	500	0	500
Demographic Pressures & Projects	699	0	699
Revenue Grants Unapplied	1,179	0	1,179
Early Intervention	500	0	500
Economic Development and Town Centre Regeneration	657	0	657
Total	**16,555**	**11,320**	**5,235**

General Reserves

5.4.7 The General Fund Balance now stands at £10.266m. The 2012/13 budget includes plans to spend £0.394m of this reserve.

5.5 Other Balance Sheet Issues

5.5.1 The Balance Sheet shows that the Council holds long term assets valued at £525.0m (excluding pension assets), with Other Land and Buildings at £421.9m representing the most significant category. The overall value has increased by £14.7m compared to 2010/11. This arises, in part, from the revaluation of assets during the year, the capitalisation of expenditure (£28.1m) and the impact of annual depreciation.

5.5.2 The level of short term investments stands at £21.0m, an increase of £11.5m. There is a corresponding decrease in Cash and Cash Equivalents (-£14.3m) which reflects the investment of cash balances for over three months (which are therefore classified as Short Term Investments rather than Cash Equivalents) combined with a reduction in overall cash balances. These investments have been made with Lloyds, Barclays and the Royal Bank of Scotland for periods between nine months and just under one year.

5.5.3 Short Term Debtors have decreased by £6.7m to £10.6m reflecting in particular a significant reduction in the business rates debtor (£3.4m) and a reduction in trade debtors (£0.8m) and debtor accruals (£3.5m), the latter mainly relating to a reduction in outstanding revenue and capital grants. Short Term Creditors have reduced by £9.5m to £31.7m primarily due to a reduction in income received in advance and in particular on capital grants. Primary Capital Programme grant received in advance last year has now all been spent and more recent grant allocations have not had conditions attached to grant usage and are therefore not classified as receipts in advance.

Capital Financing Requirement

5.5.4 The Council's Capital Financing Requirement (CFR) increased during the year by £9.2m to £41.7m as at 31 March 2012. This is a measure of the capital expenditure incurred historically by the Council that has yet to be financed and represents the underlying need to borrow. However, overall the Council was debt free at 31 March 2012 and did not need to borrow externally to finance capital expenditure. A charge is made each year to revenue known as the Minimum Revenue Provision which writes down the balance of the CFR over time. The charge is based on the asset life for unsupported borrowing, 4% of the outstanding balance at the end of the previous financial year for supported borrowing and is equal to the principal element of the annual repayments for finance leases and the Waste PFI arrangement. Further details can be found in Note 16 and Note 19.

5.6 Audit of Accounts

5.6.1 Since the draft accounts were signed by the Borough Treasurer in June, they have been subject to scrutiny by the Council's external auditor. Following the audit of the accounts a number of changes have been made to the Statement of Accounts as set out below:

- Municipal Mutual Insurance Limited (MMI) was the predominant insurer of public sector bodies prior to ceasing its underwriting operations in September 1992 having suffered substantial losses. Berkshire County Council was a member of the MMI Scheme of Arrangement and on its abolition this responsibility was transferred to the 6 Berkshire Unitaries. The Council was also a member in its own right. If MMI cannot meet its liabilities the scheme would be triggered and a percentage of all claims for which members have received settlement since 1993 would be clawed back. A judgement by the Supreme Court ruling that insurers incur liability at the time of exposure to asbestos fibres and not when the disease develops has made the triggering of this scheme more likely. The potential liability for this Council will be driven by its share of previous settlements received and the extent of insolvency of MMI. A contingent liability has now been disclosed in the accounts in Note 34 to cover this eventuality.

- Surplus assets are assets which are no longer operational and that have been declared surplus to requirements. They are not however expected to be disposed of within the next twelve months and therefore cannot be classified as assets held for sale. This category of asset is now material enough to warrant separate disclosure and Note 17 and the Balance Sheet have been amended accordingly.

- A number of minor arithmetical and disclosure errors were amended during the course of the audit.

Uncorrected items

5.6.2 Three errors were identified in the accounts which on the grounds of materiality have not been adjusted in the attached Statement of Accounts. These are set out in Appendix 2 of the District Auditor's Annual Governance Report.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

6.1 The Accounts and Audit (England) Regulations 2011 require the 2011/12 Statement of Accounts to be formally approved by Members (a Committee or Council) and signed by the Chairman / Mayor by 30 September 2012 and for the accounts to be signed by the appointed auditor by 30 September 2012.

Borough Treasurer

6.2 The Financial Statements 2011/12 is the published document which includes the 2011/12 Statement of Accounts. The Statement of Accounts includes the Movement in Reserves Statement, Comprehensive Income & Expenditure Statement, Balance Sheet, Cash Flow Statement and Collection Fund together with notes which expand and explain the information in these statements.

Equalities Impact Assessment

6.3 None required.

Strategic Risk Management Issues

6.4 There are none arising directly from this report.

7 CONSULTATION

Not applicable.

Contacts for further information

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