

AUDIT COMMITTEE

12 MARCH 2012

STATEMENT OF ACCOUNTS 2011/12

REPORT OF HEAD OF FINANCE

Contact Officer: Christine Gleave Tel No: 01962 848 226  
email: [Cgleave@winchester.gov.uk](mailto:Cgleave@winchester.gov.uk)

RECENT REFERENCES:

[AUD012](#): Annual Governance Report, 26 September 2011

[AUD013](#): Statement of Accounts 2010/11 and Letter of Management Representation, 26 September 2011

EXECUTIVE SUMMARY:

This purpose of this report is to update the Committee on the changes that are required to the Statement of Accounts for 2011/12.

Legislation requires that the pre-audit Statement of Accounts is signed by the Head of Finance by 30 June, and that the audited Statement of Accounts is approved by Members, by 30 September, annually.

The Audit Commission will undertake its "pre-statement" work in March and conduct the main audit work in the Summer.

RECOMMENDATIONS:

That the Audit Committee:

1. Note the proposed changes to the Statement of Accounts for 2011/12 (Appendix A), and
2. Note that Prior Period Adjustments will require the Restatement of the 2010/11 Accounts in relation to property valuations (Appendix B).

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1. Introduction
- 1.1. The purpose of this report is to advise the Audit Committee of the statutory changes required in the presentation of the Statement of Accounts for 2011/12, and of "Prior Period Adjustments" to be made requiring the Restatement of 2010/11.
2. Changes to the Statement of Accounts
- 2.1. The Statement of Accounts is prepared in accordance with "proper practices" as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and any subsequent Local Authority Accounting Panel (LAAP) recommendations. This year, the Guidance requires a number of changes to be made to the Accounts and these are listed at Appendix A.
- 2.2. The main change relates to the identification of "Heritage Assets". This is a new classification of asset to be accounted for either on the Balance Sheet, or as a narrative Note to the accounts. The change requires the identification of the assets, valuation of the assets, reviewing policies in relation to this class of asset and a new Accounting Policy.
3. Prior Period Adjustments
- 3.1. The preparation of Accounts at a specified date relies to some degree on estimations. Adjustments are made in subsequent periods to correct for these estimates to the extent that subsequent final information varies. A change in such an estimate does not give rise to a Prior Period Adjustment.
- 3.2. A Prior Period Adjustment is required when there is either:
  - a change in Accounting Policy, or
  - a material error in a previously reported Statement of Accounts.

In such cases the Accounts require full disclosure and Restatement of the figures as they would have been had the error not been made.
- 3.3. Prior Period Adjustments requiring the Restatement of the 2010/11 figures relate to:
  - Heritage Assets (as determined by the Guidance) , and
  - Valuations

Further information is provided at Appendix B.

4. Update on Internal Control

4.1. In the Annual Audit Letter for 2010/11 the External Auditors reported that, although the Council has a sound system of internal control, there were opportunities to further improve the Internal controls including:

- the implementation of a payroll control account, and
- a reduction in the number of staff with full access to the accounts payable system.

These will be considered as part of the 2011/12 audit.

4.2. There has been some limited progress:

- The postings for a payroll control account have been tested by the Technical Accountant prior to commencing maternity leave. This has identified a number of further actions required before full implementation can be adopted. The timescale for implementation has also been affected by the recent upgrade of the payroll system.
- The number of staff with full access to the Accounts Payable system has been reduced. However, there is still the opportunity to strengthen the internal control environment for Accounts Payable which will need to be suitably resourced.

5. Future developments update

5.1. Included within the Explanatory Foreword were several future developments for the Council. For information, an update on these items has been included at Appendix C.

OTHER CONSIDERATIONS:

6. SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

6.1. Preparation of the Statement of Accounts is fundamental to the operation of the Council. Achieving corporate priorities must go in hand with accounting for how the public's money has been spent.

7. RESOURCE IMPLICATIONS:

7.1. These are covered within the report.

8. BACKGROUND DOCUMENTS:

Financial records held in Finance and other teams within the Council.

[Accounts & Audit Regulations 2011](#)

APPENDICES:

Appendix A – Proposed changes to the Statement of Accounts 2011/12

Appendix B – Prior Period Adjustments to 2010/11

Appendix C – Future developments update

## **Proposed changes to the Statement of Accounts 2011/12**

The following changes will take effect in the 2011/12 Statement of Accounts as identified in 'The Code' and the 2011/12 Code update which was issued in February 2012.

1. **Heritage Assets** - Heritage assets are those tangible and intangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held by the Council principally for their contribution to knowledge and culture. It is worth noting that where a Historic building is held principally as an operational asset such as the Guildhall then it is treated as Property and not as a Heritage Asset.

The Accounting Standard requires, where possible, for assets to be included within the Balance Sheet at cost or valuation. The valuation can be an in-house valuation, there is no requirement to bring in specialists to value these assets. These assets are treated separately to Property Plant and Equipment (PPE) as they are not depreciated but do require regular valuation in case there is any impairment to the asset i.e. the asset has fallen into disrepair. There is no requirement to include a valuation on an asset which is considered to be of no commercial substance or where the asset value cannot be reliably measured as there is not a ready market to allow a value to be determined.

The Statement of Accounts not only requires to include the value of the assets but details about the assets, whether, included on the Balance Sheet or not to give the readers of the accounts a full understanding of the Council's undertakings as well as details of when they can see the assets.

This, therefore, requires a Council Policy on the acquisition, preservation, maintenance, and disposal of these assets as well as an Accounting Policy as to their treatment in the Statement of Accounts (the Council does already have a collections and disposals policy for the Museums service). Examples included within the Financial Reporting Standard 30 (FRS30) indicate that any costs in relation to preservation of the Asset are revenue in nature and not Capital.

The Accounting Standard is specific to the United Kingdom and not an International Accounting Standard (IAS) which impacted in the 2010/11 Statement of Accounts. The reporting requirements stipulate prior period adoption and inclusion in the reports and disclosure; this will lead to the reclassification of some assets from PPE as well as the addition of new assets at valuation on the Balance Sheet. The Museums, Cultural services, Democratic services and Historic environment departments are currently reviewing the Heritage Assets within their responsibility in order to supply data. At this point no estimate as to the value can be indicated, it is however, expected to be a material figure including museum exhibits, paintings, statues, civic regalia and historic buildings.

Heritage Assets include Historical buildings, archaeological sites, Military and scientific equipment of historical importance, Historic motor cars, civic regalia, Orders and decorations (medals), Museum and gallery collections and works of art which are the responsibility of the Council to maintain.

2. **Financial Instruments** - Financial instruments are contractual arrangements that give rise to a financial asset in one entity and a financial liability in another. Additional disclosure is required in 2011/12 in relation to Soft Loans – being a loan below the market rate of interest, where the soft loan is of a material value.

Winchester has a material soft loan with Keystone Winchester Churches Housing, the principal loan is £184,500 attracting an interest rate of 0% being 3.13% below the market rate of interest.

3. **Termination Benefits/Exit packages** – Packages payable on the termination of staff contracts. For 2010/11 a disclosure was required in the Statement of Accounts of the payments made in relation to termination packages. For 2011/12 'Exit packages' are required to be disclosed for all employees in a table disclosing the cost and number of exit packages. This includes those paid in year as well as those the Council has committed to at the 31<sup>st</sup> March 2012. The disclosure provides information on voluntary as well as compulsory redundancies and includes the ex-gratia and any pension costs in relation to the exit package.
4. **Related Party Disclosure** – The reporting of connected parties to a transaction. The definition in relation to this disclosure has been updated. As a result the definition in the request for information with regard to related parties which is sent out each year as part of the audit process has been updated and will be distributed as part of the year end timetable.
5. **Annual Governance Statement** – The 2011/12 Code introduces a requirement that, within the Annual Governance Statement an authority includes a specific statement on whether the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. Although this requirement is now formalised, the Council has already incorporated this in previous years.
6. **Business Rate Supplements (BRS)** – Where supplements are allowed and agreed to be charged, as a supplement to the Business Rates, they should be included within the Taxation and Non-Specific Grant Income line within the Comprehensive Income and Expenditure Statement when the conditions are met. Winchester currently has no BRS schemes.
7. **Community Infrastructure Levy (CIL)** – Introduced by the Community Infrastructure Levy Regulations 2010 allowing Councils to make a discretionary charge on new developments in the area. The CIL is based on a formula and relates to the size of the development. The Proceeds are to be spent on the infrastructure to support the development of the area. The Council's position on this will be explained in the Explanatory Foreword in the Statement of Accounts. Strategic Planning are currently undertaking work on preparing the relevant policies and charging schedule which are needed to implement the Regulations. An update was recently provided to The Overview & Scrutiny Committee: [OS31 – Community Infrastructure Level \(CIL\) - Update](#)
8. **Carbon Reduction Commitments Scheme** – This is a mandatory scheme to improve energy efficiency based on energy usage in 2008. Winchester City Council falls below the de-minimis for this scheme and is therefore exempt at this time when the reporting is agreed.
9. **Housing Revenue Account (HRA)** – The revision to the Code of Practice provides an additional list of items to be reported in relation to the Council Dwellings and other assets owned in relation to the HRA. It requires a further breakdown of the types and numbers of Council dwellings, the vacant possession valuation at 1 April, any impairments in the year to show the carry forward value as at the Balance Sheet date

of 31 March. The additional disclosures relate to clarity in relation to the HRA.

10. **Trust Funds** – Additional disclosure is required in relation to Trust Funds where the authority acts as sole Trustee or where a shared trustee disclosing the amount of influence the Council has in the Trust. If land or non-financial assets are managed, occupied or held by the Council the nature of the holdings should be disclosed
11. **Interest In Joint Ventures** – A Joint Venture is where two or more parties make a contractual arrangement establishing joint control of a business agreement; this may be for jointly controlled operations; assets or entities. A Joint Venture does not have to be a separate legal entity. For 2011/12 further disclosure is required in the relation to the Council's share of Contingent liabilities, Capital commitments and a description is required of any significant Joint Ventures. This will apply to the Joint Waste contract with East Hampshire District Council (EHDC).
12. **Transition to IFRS** - The 2011/12 Code incorporates the effect of regulations and statutory guidance introduced to mitigate the impact of the transition to IFRS on the General Fund.
13. **Asset Disposals** – There has been further clarification with regard to the renewal of part of an asset. Where part of an asset is renewed the old asset needs a part disposal of the equivalent part to be replaced plus the addition of the new part / component. For example a replacement roof on a house requires the old roof to be disposed of and the new asset / component to be added. This requires estimation of the element of the cost to be disposed of as well as any revaluation in relation to this element of the overall asset. This requires a change in the process undertaken by Winchester in relation to works completed on current assets so any part disposals may be identified.

## Prior Period Adjustments

The following have been identified as Prior Period Adjustments requiring the Restatement of the 2010/11 comparative figures.

- **Heritage Assets** - This is a New Accounting Policy requiring Prior Period disclosure (See Appendix A)
- **Valuations**
  - **of Housing** – The CLG Guidance for the valuation of housing assets was changed for 2010/11 accounts; The explanation given in the guidance is as follows:

*“There is a material change in adjustment factors from 2005 and this is mainly due to the difference in the yields, in 2005 a 1 per cent difference between the private and public sector was used. However this is no longer considered to accurately reflect the additional risk and liability the public sector landlords undertake when compared with private sector investors”*

*“Results typically show a 13 per cent drop in the adjustment factor from 2005 levels. This will increase the discount to be applied to the Beacon Value when calculating Existing Use Value-Social Housing.”*

The adjustment factor which should have been applied to the total vacant possession valuation, based on the beacon valuation, in the South East dropped from 45% this to 32%, a 13% reduction in the valuation. However the revised adjustment factor was not applied when calculating the values to be included within the 2010/11 Statement of Accounts resulting in the requirement to Restate the Value of the Housing assets by a reduction of 13%; being £118 million.

- **Non-Housing Assets** – three operating lease arrangements have been identified recently which were incorrectly classified as the Council's Assets and therefore included on its Balance Sheet. These are; a Car Park-The Brooks, Multi Story which is leased from London and Henley Property group on a 125 peppercorn lease; Public Conveniences - Market Lane is leased on a 93 year term, the cost of the lease being £300; and Public Conveniences -Tower Street, this forms part of the overall lease agreement for the Tower Street car park which is leased from CIN Property Management on a 93 year lease. The value is considered material and therefore this will require the Restatement of the 2010/11 figures.

### **Future Developments – update**

In the [2010/11 Statement of Accounts](#) the following Future Developments were identified in the Explanatory Forward. An update on progress is provided below:

1. **Silver Hill Development** – A scheme providing regeneration in an area of Winchester. An update of this scheme was reported to Cabinet (CAB2272) in December 2011. The Compulsory Purchase Order (CPO) process is underway to undertake the regeneration, and a public enquiry is expected to be held by an inspector, appointed by the Secretary of State, in May or June 2012
2. **Housing Finance Reform** – A reform allowing councils to retain all rental income for a taking on a proportion of the national housing debt. This will result in a transfer of national housing debt of £157 million to Winchester City Council at the end of March 2011.
3. **Joint Waste Contract** – A partnership between East Hampshire District Council and Winchester City Council for the management of the Council's waste. The contract was awarded to Biffa, a private sector enterprise. The contract commenced on 1<sup>st</sup> October 2011. East Hampshire District Council is the Administration Authority for this and the Council is reliant on them for the provision of key information at the year end in order to close our accounts.
4. **Concessionary Travel Scheme** – The responsibility transferred to Hampshire County Council on 1<sup>st</sup> April 2011. In line with agreements Winchester settled the final claim up to 31<sup>st</sup> March 2011. A provision was made for £7,383 and the final invoice dated 5<sup>th</sup> January 2012 was for £6,905, allowing a write back to the Comprehensive Income and Expenditure Statement of £478.
5. **Future of Local Public Audit** – An update is provided in report AUD026 elsewhere on this agenda.