Audit Committee
Meeting to be held on 26 September 2011

Electoral Division affected:
All

Approval of the County Council's Statement of Accounts 2010/11
(Appendix 'A' refers)

Contact for further information:
George Graham, 01772 538102, County Treasurer's Department
george.graham@lancashire.gov.uk

Executive Summary

The County Council has delegated the approval of the Council's Statement of Accounts to the Audit Committee. The 2010/11 accounts should be approved by the 30 September 2011.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2010/11; the Statement itself is attached as Appendix A.

The regulations governing the process require that the Chair of the Committee that approves the accounts must sign and date them.

Recommendation

The Committee is requested to review and approve the County Council's Statement of Accounts for 2010/11 and the Chair is requested to sign the copy of the Statement tabled at the meeting.

Background and Advice

The County Council has delegated the approval of the Council's Statement of Accounts to this Committee.

The regulations governing the production of the annual accounts require that the 2010/11 accounts should be approved by the 30 September 2011.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2010/11; the statement itself is attached as Appendix 'A'.

Preparation of the Statement

The Statement of Accounts has been prepared in accordance with the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and is known as the Code.

The 2010/11 financial statements are the first to be prepared on an International Financial Reporting Standards (IFRS) basis. This has required changes to the format of the main financial statements and an increase in the number of disclosure notes. Adoption of the IFRS Code has also resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts 2009/10 under UK GAAP accounting rules. Disclosure note number 2 (pages 53 to 60) provides details of the prior period adjustments and the impact of the adoption of International Financial Reporting Standards.

The introduction of IFRS has, as previously discussed at the Audit Committee increased the length and complexity of the statement, making it more difficult for the lay reader to gain an understanding of the key issues in terms of the Council's underlying financial strength. These issues are probably more easily understood from the Money Matters report presented to the July meeting of the Cabinet available at http://council.lancashire.gov.uk/ieListDocuments.aspx?CId=122&MId=509&Ver=4

Main Components of the Statement

The table immediately below sets out the main component parts of the Statement and their purpose. Following the table is a commentary on the key issues from the Statement.

ITEM	PAGE	BRIEF EXPLANATION
Introduction	3	Sets out the financial context in which the authority operates in the year, with a summary of the final end of year position and the outlook for the future. Also notes any changes and significant items in this year's accounts.
Auditor's Report	12	The district auditor's opinion on our accounts for 2010/11.
Statement of Responsibilities	17	Sets out the responsibilities of the County Council and the County Treasurer in relation to the production of the Statement of Accounts.
Annual Governance Statement	18	Sets out assurances on our governance arrangements and the way we manage our affairs.

Key Issues

Status of the Statement of Accounts

Details of the Council's spending and income in 2010/11, and how they compared with the budget, was reported to the Cabinet on 7 July 2011. That same spending and income is reported here, in the Statement of Accounts, in a different format which complies with the Code.

The main differences between how the year end position is presented to Cabinet (i.e. the "management accounts") and the formal Statement considered here by this Committee include:

- The way services are set out in the Comprehensive Income and Expenditure Statement (page 27) follows the compulsory Best Value Accounting Code of Practice. However, the way services are shown in the management accounts reflect how they are actually organised in directorates within the Council;

- The overall report on the management accounts to the Cabinet includes the actual cost of employer's pension contributions. However, the Comprehensive Income and Expenditure Statement and Balance Sheet shown here in the statement of accounts include significant changes for the requirements of International Financial Reporting Standard 19 (IAS 19) on the treatment of pension costs. For example, the deficit (surplus) position on the Continuing Operations line shown in the Comprehensive Income and Expenditure Statement has the actual costs of employer's pension contributions removed, being replaced by notional costs calculated by the Actuary of the current costs of future retirement benefits which have been earned in the year. The effect of these notional costs are then reversed in the Movement in Reserves Statement against the County Fund, leaving the effect on the County Fund balance the same in both methods of presentation. Note 9 (page 67) sets out the details of these transactions. IAS 19 assumes that all pension liabilities will crystalise at the same moment in time. In reality this is highly unlikely and the Pension Fund has in place a plan to recover the overall fund deficit over 19 years, which represents a more realistic position.

Main changes to the accounts for 2010/11 under IFRS

There have been some general changes e.g. new names for some of the statements and an increase in the number of disclosure notes. There have also been some technical accounting changes, the most significant are highlighted below:

a) Untaken holiday pay is accrued at the year end, resulting in an increase in year end creditors, although this has no cash impact.

b) Under IFRS accounting requirements grants and contributions for capital schemes are recognised as income when they become receivable. This income is disclosed on the Taxation and non-Specific Grant Income line within the Comprehensive Income and Expenditure Statement. Previously, under UK GAAP accounting rules grants were held in a 'Grants Deferred Account' and recognised over the life of the assets which they were used to fund.

   In addition, under IFRS accounting rules we now have to determine whether capital grants and contributions have conditions attached – if they have, they are included within the Balance Sheet as a Capital Grant Received in Advance.

c) Property, Plant and Equipment (PPE) – there are a number of changes under this category. Firstly, we are required to depreciate our assets over a number of different components based on their individual useful lives.

   Within the authority's IFRS accounting policy (in disclosure note 1), consideration has been given for any buildings with a value above £2 million as to whether or not there is a significant part which requires a separate component. In 2010/11 there was no requirement to present any separate components.

Secondly, we have also had to re-categorise our Surplus Assets under UK GAAP accounting into Assets Held for Sale, Investment Properties and Property Plant and Equipment categories under IFRS accounting.

d) We were required to review all of our leases to determine whether they needed to be re-categorised as finance leases from operating leases or vice versa. In addition we were required to review our non lease contracts to determine whether within the substance of the contract there was a lease arrangement.

e) Under IFRS the category on the balance sheet relating to 'cash' also includes 'cash equivalents', which are defined as investments that mature or are available for recall in three months or less from the date of acquisition, and are readily convertible to known amounts of cash with insignificant risk of change in value. This IFRS technical accounting requirement has resulted in the amount of £95.365 million being reclassified from short term investments to cash equivalents as at 1st April 2009 (£118.848 million in 2009/10).

The full impact of the IFRS technical accounting changes is shown in disclosure note 2 (pages 53 - 60). The authority's accounting policies which support the IFRS statement of accounts are shown in disclosure note 1(pages 32 - 53).

Financial Statements

1. Movement in Reserves Statement (MIRS)

This statement shows the movement in the year on the different reserves held by the Council. They are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing Council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Between 2009/10 and 2010/11 usable reserves have increased by £44.196 million.

The MIRS is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year, and is analysed by:

a) The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

b) The increase or decrease in the net worth of the authority as a result of movements in the fair value of our assets.

c) Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

2. Comprehensive Income and Expenditure Statement (CIES)

The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by an authority in the financial year. As authorities do not have any equity in their Balance Sheets, the total overall movement of gains and losses in the CIES should reconcile to the overall movement in net worth in the Balance Sheet.

The CIES is presented in two sections:

a) (Surplus) or Deficit on the Provision of Services – this is the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

b) Other Comprehensive Income and Expenditure – this shows other changes in net worth which have not been reflected in the (Surplus) or Deficit on the Provision of Services. This includes items such as movements in the fair value of assets and actuarial gains or losses on pension assets and liabilities.

3. Balance Sheet

The Balance Sheet summarises the Council's financial position at 31st March each year. The top half contains the assets and liabilities that it owns, or has accrued with other parties. As local authorities do not have equity, the bottom half is made up of reserves that show the full breakdown of the authority's net worth and is analysed as follows:

a) Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the County Fund Balance, earmarked revenue reserves and the Capital Receipts Reserve).

b) Unusable Reserves, which include accounting detail relating to gains and losses, timing differences and adjustments for the difference between proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. Revaluation Reserve, Pension Reserve, Capital Adjustment Account, Financial Instrument Adjustment Account, Collection Fund Adjustment Account, Accumulated Absences Account and Available for Sale Financial Instruments Account). All unusable reserves are explained in disclosure note 54

3.1 Long term assets have increased by £437.894 million – the major changes are explained below:

a) Property Plant and Equipment has increased by £224.183 million, of which £86.259 million specifically relates to 4 Building Schools for the Future schools which became operational in 2010/11 and £194.589 million relates to general increase in expenditure for land, buildings and other infrastructure assets.

Other differences relate to positive and negative outcomes on the 2010/11 revaluation of assets, depreciation charges, reclassification of items from work in progress to Property Plant and Equipment and items reclassified as items Held for Sale.

b) Long term investments have increased by £214.958 million in line with the Council's treasury management strategy to increase long term investments, with a term of 3 to 5 years to maturity, in order to more closely match the maturity profile of investments with the underlying assets which they represent.

c) Other long term debtors have reduced by £3 million.

3.2 Current assets have decreased by £146.704 million, the most significant areas are shown below:

a) Cash and Cash equivalents have reduced by £173.164 million. This is mainly due to the treasury management strategy to reduce 'cash equivalents' and short term investments, and increase long term investments as explained above in section 3.1.b.

b) There has been a £9 million increase in short term debtors, which mainly relates to capital debtors for large projects within the transport programme.

c) £17.332 million relates to an increase in short term investments, mainly due to long term investments which because they were within 364 days of their maturity were reclassified as short term investments.

3.3 Current liabilities have increased by £209.755 million, the major changes are shown below:

a) Short term borrowing has increased by £245.683 million in line with the Council's treasury management strategy to reduce long term borrowing and increase short term borrowing, in order to take advantage of low short term interest rates.

b) Creditors have reduced by £32.539 million. Most of this relates to a £18.219 million reduction in year end creditor to Regenerate Pennine Lancashire, £9.101 million reduction in accumulated absences and £2.125 million reduction in pooled fund creditors. The breakdown of the authority's creditors is shown in note 47.

c) Receipts in advance have reduced by £9.416 million of which £3.5 million relates to the reduction in advance receipts for contracts relating to road works. In addition, the new IFRS accounting requirements for capital grants mean that only those grants received which have conditions that are yet to be satisfied are now classified as receipts in advance (as detailed in disclosure note 2 which provide details of the impact of IFRS accounting changes).

d) Short term provisions have increased by £6.027 million mainly due to a £4.196 million increase in the redundancy provision.

3.4 Long term liabilities have decreased by £335.108 million, the most significant changes are shown below:

a) The pension liability has reduced by £294.746 million. Full details relating to the Council's pension liability can be seen in disclosure note 67.

b) Long term borrowing has reduced by £18.745 million in line with the Council's treasury management strategy to move to short term borrowing with more attractive interest rates.

c) Long term provisions have reduced by £21.823 million, mainly due to a £16 million reduction in the equal pay provision and a £4.8 million reduction in the insurance provision.

Our net worth in the Balance Sheet has increased from £677.911 million in 2009/10 (restated for IFRS changes) to £1,094.454 million, which represents an increase of £416.543 million.

4. Cash Flow Statement

Under IFRS accounting requirements, the cash flows of the Council are presented over fewer headings. A key difference is that the statement reconciles to the movement in 'cash and cash equivalents,' not just to the movement in cash. Cash equivalents consist of short term deposits with building societies and account for £39.903 million on the balance sheet (see note 48).

Auditor’s Report Pages 12 - 14

It is the external auditor's opinion that the accounting statements

- give a true and fair view of the state of Lancashire County Council’s affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Full details of the Audit Commissions findings are contained within the 2010/11 Annual Governance Report which has been submitted to the Audit Committee as a separate item.

The Committee is requested to approve the Statement of Accounts and the Chair is requested to sign the tabled copy on page 31.

Consultations

Within the Accounts and Audit Regulations 2011 we are required to open the accounts for public inspection. This enables any member of the public to inspect the Accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2010-11 Accounts commenced on 4th July and ended on 29th July 2011.

Implications:

This item has the following implications, as indicated:

Risk management

The County Council's accounts for 2010/11 must be approved by 30 September 2011.

The financial implications are set out in the report above and in the Statement of Accounts attached at Appendix A.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Ext
Final Accounts working papers	2010/11	Joan Grant, Resources Tel : 01772 534776
Accounts and Audit Regulations	2011	

Reason for inclusion in Part II, if appropriate
N/A